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The Economic Record



A Conference Board Publication

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Vol. VI, No. 3



The Economic Record is open to views and opinions that are not necessarily those of THE CONFERENCE BOARD. It does not adopt them by printing them; but for their integrity and good faith in every case The Board does hold itself morally responsible. Contributions will be welcome.

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The Economic Record

GARET GARRETT, *Editor*

OCTOBER, 1944

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VOL. VI, No. 3

Review and Comment

IN THE summer cool of Bretton Woods, forty-four nations, believing it or not, subscribed to the fantasy of a planned and managed world in which the unselfish exchange of wealth by way of foreign trade will provide full employment and a higher standard of living for all people of good will. If it works, the cost of war may be forgotten. It will absorb itself in a painless manner. The first requisite is a supreme international intelligence, above all national interests, putting always first the welfare of the world. This supreme international intelligence shall have in its hands, as working tools, two wonderful mechanisms, one named the International Monetary Fund, and the other the International Bank for Reconstruction and Development, with combined resources of nearly \$18 billion. By means of these two mechanisms, acting in a reciprocal manner, credit may be multiplied according to need and at a price that even the poorest nations can afford to pay, for, according to Mr. Morgenthau, the idea is to drive "the usurious money lender from the temple of international finance." Thus equipped, the supreme international intelligence shall reconcile debit and credit, administer international inflation, plan the international economy, and say how the resources of the nations shall be employed and shared for purposes of unlimited international well-being.

March of the Experts

Bankers had almost nothing to do with the plan. That pessimistic fraternity was not admitted. Not even the Federal Reserve Bank of New York was present at Bretton Woods. The plan was the work of monetary experts. Many hands, principally British and American hands, had writing in it, but the parts that have to be read three or four times, even by bankers, represent the genius of Lord Keynes of the British Treasury, whose boast is that almost single handed he conquered the superstition of sound money in Great Britain. On another page of *The Economic Record* will be found the speech he made in the House of Lords just before leaving England for the Bretton Woods conference. Remember as you read the speech that the plan was then finished. The plan he is talking about is the one that was signed. The delegates of the forty-four nations were forbidden to change it in principle; they were free to amend it only in nonessential particulars. President Roosevelt himself imposed that limitation upon the conference. All that

happened therefore was that docile paper received forty-four signatures; and now the plan goes back to the governments for approval. If the war in Europe should end suddenly, before the plan becomes operative, or before the Congress of the United States has acted upon it, then there will be no organization of any kind to cushion or absorb the shocks of monetary chaos, with no such thing as a natural price, a natural value, or a natural rate of exchange existing in the whole world.

Saving Reality

The Bretton Woods fantasy, however, is not angel pure. Not to be left in the lurch, it keeps up a kind of butter-and-egg acquaintance with friend reality. For after all, what if the war should have to be paid for in the old hard way? Reckoning for the last war was postponed for more than ten years, owing largely to the inflationary use of American credit; and the European mind has never been free of the notion that it might have been postponed for a much longer time, possibly forever, if the supply of dollars had not failed. Suddenly the Americans were in a silly panic about their unplanned foreign loans and not only stopped putting their dollars forth but actually wanted some of their dollars back, and were unwilling to receive in place of dollars the equivalent in competitive goods. That shall not happen again. The International Monetary Fund and the International Bank together will be a miraculous source of dollars, and a source free in itself, not subject this time to the fickleness of dollar people. Moreover, if the supply should run out the fund will not be without means to replenish it, such as, first, to borrow dollars wherever it may find them, and, secondly, to require the American government to sell dollars for gold. If dollars are still scarce, and scarce either for the reason that the dollar people are selling too much to other nations and buying too little from them, or for the reason that the dollar people do not lend freely to other nations, then the fund may act upon their foreign trade to limit and hinder it by exchange restrictions, until they come to their senses and promise either to buy more and lend more, or, as a last resort, to cheapen dollars by devaluation for the benefit of their foreign customers and foreign debtors. This provision of the plan meets the dictum of Lord Keynes that creditor nations shall be held morally responsible for the plight of debtor nations and that hereafter creditor nations must keep the economic equilibrium of the world, instead of upsetting it as they have done in the past, by squeezing gold out of the debtor.

Cheap Dollars

Implicit in this plan for control of the international economy is the assumption that the United States will emerge from this war a great creditor nation, as it did before, only this time in figures of a much higher order of magnitude. Astonishing as it may seem, in view of what has been happening under lend-lease, that assumption begins to be doubtful. A proper statement of this country's foreign account, showing both actual and contingent dollar liabilities, might well disclose a debtor position, that is to say, more dollars payable than dollars receivable. There are instances of lend-lease operations having turned into dollar liabilities. It is certain, however, that at the end of the war the American power of production will be paramount in the world and unimpaired, so that afterward, for awhile at least, this country's role must continue to be that of the great provider. The problem, therefore, from the point of view of debtor and deficit nations, looking this way for credit and goods, is how to keep dollars not only plentiful but also cheap. Here the monetary experts did fine work. To begin with, the par value of currencies must be fixed. By the par value of currencies is meant the exchange value of dollars, pounds, roubles, guilders, and so on, in terms of one another; as to say, one pound sterling equals four dollars or it takes four dollars to buy one pound sterling. The plan provides that the fixed par value of currencies shall be the value that was of record sixty days before the date on which the plan becomes operative. That looks fair enough. But the hare is invisible. The provision is one that will probably result in making the dollar the cheapest piece of money in the world. Why? Because since the beginning of lend-lease no Allied country has had to buy dollars, whereas dollars have been used to buy Allied currencies in a prodigal manner, with this effect, that the dollar came to be undervalued and the Allied currencies overvalued in the exchange rates of record. These are not natural rates; they are artificial rates supported by the dollar. The pound sterling, for example, is probably much too high in relation to the dollar. Speculators evidently think so, hence the long rise of common stocks in London and the fact that when British securities are sold in New York for dollars they are priced at a discount of 30%. The plan of the monetary experts proposes to freeze this wartime distortion of values in peacetime parities, thus making the dollar a permanent bargain.

Wishful Assumption

The most wishful assumption of the entire Bretton Woods plan is the crucial one. This is the assumption that the international division of labor will continue in somewhat the old design and that within that design foreign trade, if only it is planned for the sake of mankind, may be so wonderfully and profitably expanded that it will balance every national economy, provide full employment for all nations and enable the whole world to enjoy a higher standard of living. Great Britain is saying she must increase her exports one-half over anything they were before; she must do this or fail. One of the few certainties is that the international division of labor will

never again be as it was before. This is owing to the world-wide diffusion of machine technics, to the passion for industrialism now possessing the people who have hitherto served the system as primary producers only, and to the rise of the synthetic chemical industry which may destroy, for example, the old rubber trade. Great changes in the character and distribution of foreign trade seem inevitable and imminent, and this is to have saved nothing of the enormous increase in the American power of production both actual and relative. We cannot go on forever lend-leasing the surplus away.

Master Cartel

The leading feature of this number of *The Economic Record* is an account of Great Britain's decision to embrace a planned economy. The reasons that have moved her to this decision are clear. It is deemed to be necessary in time of peace, almost as it was in time of war, to invoke the total defensive power of the state, only now the thing to be defended is British economic power. But for a trading nation like Great Britain a planned economy is extremely hazardous. It can be badly damaged, even wrecked, by wild fluctuations of price and demand in the outside world. That is why the British now are driving with all their skill of diplomacy for international economic agreements touching money, prices and production. The aim is to rationalize competition. From now on this will be the controlling idea of British foreign policy and all international conferences may be so understood. The Bretton Woods monetary agreement, as the British see it, is a design for the master cartel.

Who Needs the Money?

One of the received ideas, seldom challenged or analyzed, is that after the war a long list of poor and debtor countries must somehow be provided with buying power, else they will be unable to buy, and if they are unable to buy nobody will be able to sell, and it will be very bad for everybody's foreign trade. In its August circular the National City Bank asks: "Who needs the money?" It finds that outside of Continental Europe there are few countries in the world that have not been flooded during the war with American dollars and British pounds. Thus, enormous balances have accumulated to their credit in London and New York. Then it discovers that the gold and foreign exchange reserves of twelve countries on the continent of Europe, excluding Germany, are really large. Of gold alone, these twelve countries have more than \$5 billion, two-fifths of which belongs to France. It says: "Just as our enormous war expenditures at home are putting money into the hands of people which they cannot spend because of lack of goods, so the tremendous outpouring of American and British money abroad at a time of goods scarcity is building up huge dollar and sterling claims against future production." Leaving aside certain problem countries, the difficulty will be how to produce and deliver the enormous quantities of goods which the owners of pounds and dollars will be able immediately to command, and do it in time to avoid inflation—not how to provide more buying power.

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The Outline of a Planned Economy for Great Britain

Derived from the White Paper on Employment Policy and the debate in the House of Commons

COMING to the memorable year 1944, curious historians, if there are any, will find the Burning of the Economic Witch gleefully depicted in a London *Daily Mail* cartoon. Five Pickwickian gentlemen are dancing in a ring around the stake. The hateful figure in the flames is named Unemployment. The blazing fagots are tagged Outworn Theories.

Such was the popular reception of the British Government's White Paper on Employment Policy. Along with the cartoon there was an article written by a member of Parliament who referred to the White Paper as "a landmark in British social and economic history," and said: "It flatly contradicts every economic principle and every statement of policy adumbrated by the Treasury since the end of the last war." No offense was meant by this, nor could offense be imagined, since the government itself was saying almost the same thing. In its own White Paper it had written:

"Not long ago, the ideas embodied in the present proposals were unfamiliar to the general public and the subject of controversy among economists. Today, the conception of an expansionist economy and the broad principles governing its growth are widely accepted by men of affairs as well as by technical experts in all the great industrial countries. But the whole of the measures here proposed have never yet been systematically applied as part of the official economic policy of any government. In these matters we shall be pioneers."

In presenting the White Paper to the House of Commons on motion for approval, the Minister of Labor said: "We are turning our back finally on past doctrines, and past conceptions. . . . It is not final, it is pioneering, it is blazing a new trail. . . . It places a great responsibility upon Parliament and upon the government of the day. . . . To have in its hands the direction of the economic life of the country as it wills is not something to be taken lightly."

And the Chancellor of the Exchequer said: "I say that this plan does in fact

represent, as is stated clearly on the face of the paper, a fundamental change of outlook."

Any vagueness in it, he added, was owing to the fact that Great Britain was putting herself forward on an uncharted sea. And Lt. Col. Elliott, who made one of the fine speeches, said: "We are the first nation that evolved an industrial system and we must be the first nation to find the road out from the industrial system."

I.—The Paper

So now one looks at the White Paper. What is it?

It is the outline of a scientifically planned economy for Great Britain. And this is not for the purpose of safe passage from war to peace. In the transition period many emergency measures may be necessary. These will be what they have to be and what circumstances dictate. The scientifically planned economy will begin after that, as a permanent national policy.

The first premise is that the government assumes responsibility for the "maintenance of a high and stable level of employment after the war."

This means that the government will undertake to keep the national economy in a state of equilibrium at a predetermined level. In that economy there shall be neither booms nor slumps. Prices shall be stable. Wages shall be stable, too, though inclining always upward according to an index of production. Nothing shall be left to the cruelties of natural corrective. The theory of natural correctives is fuel for the fire in which unemployment is burning up. The White Paper says:

"The Government is prepared to accept in the future the responsibility for averting a slump. It was formerly believed that depression would automatically correct itself through a decline in prices and wages. The lower prices would increase demand and thereby restore employment. However, experience has shown that this automatic corrective, if effective at all, is likely to be prolonged

and accompanied by widespread distress."

Now what are the means and mechanisms by which a government may hope to be able to keep the national economy in a state of equilibrium at a high predetermined level?

At the center of everything there will be a body of experts, which may be described as an Economic General Staff. It will have itself no power to act. Only the government can act. But the Economic General Staff will be all-seeing and all-knowing, and will possess, besides, the gift of foresight. It must be able to see a slump, or a boom either, before it happens and know beforehand what to do to snuff it out. Suppose, for example, as the White Paper says:

" . . . there is a decline in the demand for steel for the erection of new buildings, unemployment will first appear among steel workers. The steel workers, in consequence, will have less to spend on food and other consumer goods, so that the demand for consumer goods will fall. This leads to unemployment among the workers in the consumer goods industries who, in turn, find their purchasing power reduced. As a result of this general loss of purchasing power in the community, the demand for new building is still further reduced and the demand for constructional steel falls once again. The original decline in expenditure produces secondary reactions which themselves aggravate the source of the trouble. This is an oversimplified illustration, but it is sufficient to make it clear that the crucial moment for intervention is at the first onset of the depression. A corrective applied then may arrest the whole decline; once the decline has spread and gathered momentum, interventions on a much greater scale would be required—and at that stage might not be effective."

In that case what would the scientific corrective be? It would be a sudden release of a public works program for which the blueprints are already prepared. It cannot be as simple as that. You do not create work and wages by having a blueprint ready and then handing it out. In-

dustry, too, must be ready. The Economic General Staff must have foreseen the decline in the demand for steel. It must have said to industry: "A time is about to come when your steel output will have to be absorbed by the government in public works. The government for its purposes will need not things in the shapes you are making now but other things in other shapes. Therefore, prepare now to make those other things. Have your tools ready so that you may turn immediately to the new work. Otherwise there will be a time lag and your workers will have to wait without wages while you are getting ready, wherefore that total of expenditures which the government is obliged to maintain will begin to fall." That is the meaning of the paragraphs of the White Paper which read:

"In order that public investment may be more quickly mobilized to redress the balance of private investment the Government also intend to seek means of reducing the time lag which ordinarily intervenes between a decision to undertake public capital expenditure and the actual start of the work. Speed here is crucial, for if a decline in demand can be caught quickly enough and corrected, a comparatively modest amount of compensating expenditure will be sufficient to restore the balance.

"Finally, forward planning may have to be carried down to the industries which supply the primary needs of public investment. Much time would be saved if, in those capital industries which are most subject to fluctuations and are the first to be affected by an increase in public investment, attention had been given beforehand to the quickest ways of switching production from the types of article needed for private investment to the types required for those forms of public investment which stand highest in priority on the reserve list of public works."

The demands upon the foresight of the General Economic Staff will be extreme. For example, it must be able to foretell the decline of old industries and the rise of new ones. It must anticipate the demands of new industry for labor so that when the new industry needs it labor of that kind and precisely the right quantity will be there, already trained. The government will do the training; it will, says the White Paper, "take steps to train the necessary men for new and expanding trades in time to be available when the demand for its services matures." Trainees may come from the failing trades, and they "will not be considered as unemployed. Their allowances are to be entirely divorced from unemployment benefits." Then it adds: "Care will also be

taken to insure that the number of trainees does not exceed the number capable of being absorbed in the particular trade." Thus the Economic General Staff must be able not only to foretell the rise of a new industry but the rate at which it will grow, for otherwise the government could not be sure it would not find on its hands a lot of men trained for work that was not there.

Briefly, in this scientifically planned economy the Economic General Staff will represent the principle of pure intelligence, without power. By its advice the government will act upon production, prices, wages, and profit. It will influence, direct, and if necessary control the movements of private capital, the rate of interest, the situs of industry, the distribution of labor and population, and at last it will control the amount of money the people may spend in the satisfaction of their daily wants.

If what are called the "consumption expenditures of the people" fluctuate, it is bad for the equilibrium. When in their every day living they spend too little for goods and services, they are causing unemployment among those who produce the goods and services; wherefore these, in turn, spend less, and the evil is accelerated. On the other hand, if they spend too much it causes prices to rise, which may be the beginning of a boom.

The ideal, therefore, is a total expenditure predetermined and steadily maintained. How can the total be regulated? For this purpose the government will have already in its hands the perfect mechanism, namely, the proposed new social insurance system. Both employers and wage earners contribute to the social insurance fund. If the people's total expenditure for the satisfaction of their daily wants begins to fall, and unemployment for that reason rears its head, then contributions by both employers and wage earners to the social insurance fund will be temporarily reduced. The effect of this, says the White Paper, will be to leave more purchasing power in the hands of the employer, so that he can hire more people, and at the same time it "will also leave additional money in the hands of millions of employed workers and will help maintain the demand for consumers' goods."

There is another means whereby the volume of consumption may be regulated. The White Paper says:

"If experience should show that the variation of social insurance contributions was of value in keeping employment steady at a high level, but that another instrument for operating upon the volume of consumption was also de-

sirable, it might well become a matter for consideration whether in prosperous times rather more taxation should be raised than was necessary for the Budget requirements of the year and that excess treated as a credit repayable to the taxpayers in bad times."

Which means that in fat years the government would impound the fat by excess taxation and then in lean years distribute it back.

In view of the fact that the government undertakes to abolish slumps and booms, why is it discussing here what to do in good and bad times? The answer is that such measures as these are provisional, to be used only when and if necessary. They are weapons, and once they are proved it may not be necessary to use them at all. Fat and lean years may stop coming around. There is the possibility also that the Economic General Staff will make mistakes, maybe some very bad ones at first, and beyond that is the fact that the forces of frustration will be active.

The government takes forethought of these forces. For example, its design would be frustrated by a rise in wages that was not "related to increased productivity due to increased efficiency and effort"; and if the general level of wage rates should rise and there was a corresponding increase in the price of goods for civilian consumption, as of course there would be, then "of course the individual wage earner would be no better off and there may be no increase in the total amount of employment available." In fact any uncontrolled rise in prices would tend to frustrate the government's intentions.

And again, if the government were disbursing great sums of money to maintain employment and these great sums were largely absorbed by employers to increase their profit margins, the government would be terribly frustrated, because in that case no increase of employment would result. In place of it there would be only increase of profit. Therefore, wages, prices and profits must all be controlled, and, quoting the White Paper, "employers must seek in larger output rather than higher prices the reward of enterprise and good management."

Another force of frustration lies in the inertia of labor. On this subject the White Paper says:

"It would be a disaster if the intention of the Government to maintain total expenditure were interpreted as exonerating the citizen from the duty of providing for himself and resulted in a weakening of personal enterprise. For if an expansion of total expenditure were

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applied to cure unemployment of a type due, not to absence of jobs, but to failure of workers to move to places and occupations where they were needed, the policy of the Government would be frustrated and a dangerous rise in prices might follow."

In that case would government submit to be frustrated by the vegetable habits of labor or would it find a way to coerce labor in behalf of the general welfare?

Then at last you come to people who, on their way to the Promised Land, may still weep for the flesh pots of Egypt. That is to say, human nature is in itself a force of frustration. People have always wished the government to save them from slumps, but there is no historic instance of their having wished it to save them from booms. The White Paper states this problem with misgivings and hope, saying:

"Measures to increase total expenditure at the onset of a depression may well be welcome; but the restraining measures appropriate to a boom may meet with opposition unless they are seen and understood as part of a continuing policy for maintaining employment, and accepted as the price that must be paid for the success of that policy over the long period. If action is to be taken quickly enough to have its full effect, the Government of the day must be able to rely on the support and cooperation of the public in applying the principles of an agreed national policy."

In the paragraph just quoted there is the significant phrase, "government of the day." What it signifies is a distinction between the government and the state. Governments may come and go, but above them is the state which is permanent with a continuous policy, in this case the policy of a planned economy which the government of the day will be obliged to pursue. Thus, whatever may have to be done to the people in a planned economy will be done to them not by the government but by the state.

In the debate on the White Paper in the House of Commons this distinction was clarified. The Minister of Production said: "In an earlier part of the debate doubt was cast upon whether a democracy could pursue a continuous policy directed toward full employment. It was asked whether the White Paper was in fact an election manifesto; was the House of Commons going to be bound to a continuous policy? . . . I would say that unless you are able in a democracy to devise on some of these major things a continuous policy you are subscribing to a doctrine of despair." He referred to foreign policy and defense as two great subjects already

governed by continuous purpose, irrespective of the government of the day, and went on: "I suggest that what the White Paper is asking us to do is to add a third great subject . . . that is, the promotion of full employment. I see nothing undemocratic in that. I do say that as the world goes on, as circumstances change, we must adapt, enlarge, and make mobile the means by which the policy is carried out, but unless we are all determined that this is the policy of the nation, and not the policy of this party or that, we shall certainly fail."

II.—The Debate

The government presented its White Paper to the House of Commons as an architectural drawing, without blueprints. The motion of approval was opaquely phrased, thus:

"That this House takes note of Command Paper No. 6527 on Employment Policy and welcomes the declaration of His Majesty's Government accepting as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war."

The government, represented by the Minister of Labor, the Minister of Production, and the Chancellor of the Exchequer, took two parliamentary positions. The first was that if the House of Commons accepted the drawing by voting aye on the motion, then the government would proceed with the blueprints and bring in the necessary laws. The second position was that it declined to touch the dispute as to whether industry should be privately or publicly owned, the dispute, namely, between capitalism and socialism; and that this attitude of neutrality would be maintained upon the ground that so far as the government's intentions were concerned it would not matter one way or the other. The Minister of Labor said:

"The Government do not claim that the White Paper is the final solution of this problem. The proposals do not raise the question, for instance, of whether industry will, for ever, be privately or publicly owned. Some say that all benefits of enterprise arise from private industry, and some say they arise from public ownership. Well, I have seen a bit of both. I have seen enterprise absent from public ownership and I have seen enterprise completely absent from private ownership. Therefore, the question of how you can give effect to decisions as to who will own industry is not prejudiced by this White Paper. The proposals of the White Paper will oper-

ate, whatever the ownership of industry may be."

On the same point the Chancellor of the Exchequer said:

"The White Paper does not seek to take sides in the controversy between private enterprise and public ownership or public management. It seeks to cater for both. In my opinion, for what it is worth, sensible people must recognize, as previous speakers on the opposite side of the House have recognized, the existence of a very wide field in which free enterprise will undoubtedly continue to operate. Surely it is therefore common sense to provide conditions under which free enterprise can operate and have a healthy development for the general benefit of the community; and on the other hand we must reckon with the growing opinion against allowing certain services, certain activities, which are vital to the life of the community, to be carried on for private gain."

But the Chancellor of the Exchequer could not leave the subject there. Members on the left had raised the point that with industry continuing in private hands the freedom of government would be limited. To this he said:

"That point does trouble me. I do not want to be in the least controversial, but when I have given, as I have, study to the technical problem of management under conditions of public ownership, I have always pictured this sort of setup: that managers would be appointed to act on behalf of the community under the general directions of the Government; they would have a duty that would be laid down in some document or direction, to conduct their enterprise with regard to certain principles. If it were transport, for example, it would be to provide an efficient service for the public at a reasonable cost. There would be an element of trusteeship in the duties and obligations of the manager of such a publicly owned enterprise. I venture to doubt whether the Government would really have quite as much freedom as unkind people would say, 'to play about,' with the affairs of such enterprises under conditions of public ownership as might be supposed. I have sometimes, in regard to the public service, thought there were people who took the view that the public service was a sort of philanthropic institution, which should be run with a view to providing opportunities of employment for people who were in need. All experience shows that unless the public service is conducted with a view to efficiency, and other considerations are discarded, you very quickly get into very serious trouble."

During the debate the idea of hiring the brains of private enterprise was further

developed by a sympathetic member who said:

"I want private enterprise to have its chance, but, if it fails, the Government should have no qualms at all but should step in and say that the time has come when they must control industry because private enterprise has failed. It is often argued that private enterprise has all the brains. Why cannot these men of high capacity be taken into the service of the state and use their brains in that direction rather than be allowed, as this White Paper suggests, to make whatever they can out of private enterprise with Government backing? It would be far better for them to be servants of the state when that position arises. That, to my mind, is one of the implications of the White Paper which is detrimental, especially to our side, because we have always asserted that unemployment is bound to follow our present system. Nothing can stop it, and unless the Government are prepared to step in and take over heavy industries, such as coal, I do not see how unemployment can be prevented. Here is a grand opportunity for the state to step in and do it now. We have laid down the fundamental principles that employment must be for every one. When we feel that private enterprise is tottering, then the Government should have no hesitation in taking over all kinds of private industry for the benefit of our people."

The last word was said by the Minister of Production:

"I would like to touch for a moment on private or free enterprise and the public ownership aspect of this subject, and I would say what my own opinion is and to repeat it quite categorically. It is that the solution of this problem lies in finding the correct mean between the organizing power of the state and the free play of enterprise. The Minister of Labour and I would probably draw the line between public ownership and private ownership at a different part of the scale, but that is not a matter of principle, nor of doctrine, but a matter of practice. This is why I thought it was a pity that some hon. members laughed yesterday when the Chancellor of the Exchequer said that the White Paper

Burning of the Witch



London Daily Mail

was designed to cure this problem under a system which permitted both public ownership and private enterprise, because I think that is exactly and precisely how we should approach the subject. I do not mind in the least if I disagree on a particular industry with my hon. friends—we will look after ourselves, and they will look after themselves—but I do want to get some measure of agreement for this idea, that this is the correct synthesis, if we are to get full productivity out of our resources. The field of private enterprise is the field of a risk, in prospecting for minerals, in experimentation and in other sorts of risks.

"MR. BELLENGER: Profitable risks.

"MR. LYTTLETON: They must be profitable; otherwise you cannot get people to take them. If I may speak of an industry about which I know something, the mining industry, you have to lose a great deal of money before you make any, and the position of a minister who is explaining that he has invested the taxpayers' money in a process of turning sea-water into gold, and has lost it, must always be very uncomfortable. . . . I do not think it is really to be disputed that Parliamentary control does lead to safe, sound and beneficial forms of enterprise, but I do not think that it is suitable for the kind of enterprise which I have mentioned. I want

to go into this matter of the instability of private investment. I followed with great attention the arguments of my hon. friend, who said—and it is a very simple argument—that private capital expenditure is difficult to control. The hon. member asked: Why not cure the whole thing by a wave of the wand and make all capital expenditure public? The reason for that is that all capital expenditure cannot be public if you are, in my submission, to get full productivity out of your national resources, for the reasons which I have just been explaining."

As the debate proceeded the government took a third position on tactical ground. That is, it would not involve itself in any discussion of the laws that would be necessary. First the drawing, then the blue-prints, and from the blue-prints the laws would naturally follow. Some members were anxious to know

whether the laws would have teeth and cutting edges. One member feared that too much would be left to voluntary action. To this the Minister of Labor replied: "We did not put down compulsion of this and that in the White Paper, but we have projected it for debate."

The government had no inclination to gloss the fact that its purpose was to direct and control the economic life of the nation by expansions of power beyond any British experience in time of peace, a power hitherto known only in time of war. Indeed, the disciplines would be those that had been learned with war. The Minister of Labor, speaking of course for the government, said:

"The coming of the state into the arena, full blooded, as is now proposed, must mean the writing of a new code of conduct for industry, a new set of rules in our economic life, which must be respected and respond to the will of Parliament, if the problem is to be solved. Let me say, in passing, that no one can look at the astonishing variety of products which we have produced during this war without realizing that they are far more varied than our production in peace, and our technical development has far outstripped anything we had done previously. What has done it? The pressure of all towards a com-

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mon objective—to win victory. I ask the House whether a common objective nationally cannot be adopted to carry us, not only through the transition period, but into a better economic state after the war.

"MR. BELLENGER: Code of what?"

"MR. BEVIN: A code of conduct and relationships in carrying on the business of this country. We have made great strides in this war in the way of production committees and all sorts of things. The whole thing is growing up, but it is really only beginning. It has been introduced under the pressure of war."

It was a strange debate. Generally it moved on a plane of high and anxious sincerity. The mood was that of men about to embark on a voyage of great necessity, for a destination unknown. The dispute was not about going, but about gear and cargo, what to take and what to leave behind. They kept exhorting one another to make up their minds without looking back. No one was elated. Some were hopeful, some were depressed, several gave their assent as an act of faith. One, entirely unbelieving, who nevertheless gave way with a fatalistic gesture, was Mr. Hely-Hutchinson, who said:

"I would like to propose a general proposition. I myself am intellectually convinced of its truth, and still more so after listening to speakers on both sides of the House; but, oddly enough, I may be wrong; so I would like the problem to be examined by better minds than my own. My proposition is that it is only an authoritarian government which can deal effectively with unemployment. If we examine the nature and causes of unemployment it can be shown in theory that the only effective technique in the prevention of unemployment which a government can employ is interference with individual freedom of choice—that is to say interference with private enterprise—and not only can we show it in theory but also we have seen it in practice in the last ten or twenty years. In those countries which have for a time made a success of dealing with unemployment the technique which they have employed for that purpose has been interference with freedom of individual choice. In Germany, the Nazi Government took away from the people the right to make their own decisions. In this country we voluntarily gave our Government, for the purpose and period of this war, the power to interfere with our freedom of choice. In Russia, a paternal government took over the running of the whole nation, and interfered with freedom of choice. In America, they tried to deal with unemployment, but so long as they refused to interfere with freedom of choice, they failed; and it was only when war came along and

the government got the powers to interfere, that unemployment was effectively dealt with. So I think I am saying, in a slightly different way, exactly what my hon. friend the Member for West Fife said, that we cannot have private enterprise, and deal effectively with unemployment at the same time. I think that is true. It is going to be a question of choosing between the two. Which is, in the long run, the greater end in itself? Freedom of individual choice or dealing effectively with unemployment?"

Several members interrupted to ask him to define freedom of choice. Did he mean the freedom of choice on the part of the employer to hire or discharge labor? He replied:

"I mean much more, the freedom of the individual to say: 'I will—or will not—go to Brighton'; 'I will—or will not—buy this particular hat'; 'I will—or will not—start, or go into this particular business.' All those things, in respect of which we are today limited in every way, are different aspects of what I meant by freedom of individual choice. I meant private negotiation, the idea of a man negotiating for his own advantage. That is private enterprise. . . .

"Turning to the methods of the Government's proposals, there are a good many aspects which one would like to discuss but there is one in particular which should be mentioned. The keynote of the policy in practice, as I see it, is to be found in the central phrase on page 26, section 80: 'Today, the conception of an expansionist economy and the broad principles governing its growth are widely accepted by men of affairs as well as by technical experts in all the great industrial countries.' That confident phrase might have come straight out of a leading article in *The Times*. I am not absolutely certain what it means, but I know what it connotes to my mind, and I have had that impression confirmed by what every hon. member has said in speaking of it. It connotes to my mind the pressure of equal suffrage on taxation, a continually expanding national debt, and a steadily if slowly depreciating currency. What it really means is that, under the pressure of suffrage on taxation, the horses of national debt have already begun to run away, and instead of pulling a long face about it, we have decided to look pleasant and say that that was what we had really meant them to do all the time. . . . I think we are entering on a period when it will be politically impossible to oppose the idea of an expansionist policy. It must run its course, it must work itself out, and it is only when it has worked itself out that we shall realize to the full what are its defects. Today I was talking with a very

wise friend of mine on this very subject, and this was his comment. He said: 'I wonder why it is that at this particular moment in history the idea should have become so prevalent that everything was done in the wrong way in the past, and that therefore it is to be done differently from now on.' He said: 'Is there not something crazy about that idea, is there not something almost conceited about the idea that only now, in this epoch of history, we find that everything done in the past was wrong and that we ought now to do it in a different way?'

"I conclude by saying that I regard the White Paper, as a whole, as a most genuine attempt to solve a problem which appears to me to be practically insoluble."

That was the extreme statement of doubt. And it was denounced as belonging to the Nineteenth Century by one speaking for the young section of the Conservative Party who said:

"To us this White Paper means the end of one chapter and the opening of a new one. It means the end of *laissez faire* and of the Free Trade century which has now come to an end, and it represents the definite adoption by the Government of a planned economy."

There were forty-three speeches. Only two were valiant and uncompromising in defense of private enterprise as against a planned economy. The White Paper was supported by Conservatives, Liberals, Tory Reformers, Moderate Socialists, the Labor Party as a whole, and by British industry in general. Sir Arnold Gridley, himself an industrialist for more than forty years, said: "I have taken the trouble to fortify my own views by contacting leaders of industry in many parts of the country and I find that the views I have expressed are very widely shared. I think it can be said without contradiction that although of course questions may be asked on this or that part of the White Paper proposals, in general, industry is prepared to give them wide support."

III.—The New Finance

In a planned economy, finance becomes a social science, public debt is made subject to the laws of relativity, and money is administered by a slide rule. Instead of money creating necessity it is necessity that creates money, and its power to limit human happiness is therefore abolished. The difficulty is that this change must take place in a world that clings desperately to its superstitions. Until the new way is proved, that is to say, until it works, people will continue to think in the

old way of debt as debt and hold fast to the theory of solvency. So when it comes to a discussion of how to finance a planned economy there must be a resort to euphemisms. For example, you never say inflation; you speak instead of an expansionist policy. If you cannot project an unbalanced budget infinitely you speak instead of the human budget. You make a distinction between a dead-weight debt which ought to be reduced when it may be done without deflationary effect, and, on the other hand, a productive debt, which may grow forever. A planned economy cannot permit its designs to be defeated by the old laws of solvency, rigidly construed; but at the same time the old laws cannot be flatly repudiated because if they are credit will be ruined.

There was a paragraph in the White Paper saying: "None of the main proposals involves deliberate planning for a deficit in the National Budget." Deliberate is there the equivocal word, and it was attacked by Mr. Pethick-Lawrence, who said:

"Modern economic thought really comes to this: that, unless you definitely and deliberately unbalance the Budget, you will not do anything material towards creating employment by Government action, and closing what I call the gap. I admit that that is a very serious proposition. So long as the Budget must be definitely balanced every year, you had a strict rule, which you could obey or disobey; and if you disobeyed it you were held up as one who broke one of the established rules of finance. The moment you threw one of these rules overboard, you were like a person who had broken a moral code — there was a danger that you might go entirely to pieces. I appreciate the perilous sea on which the Government feel they would embark, but it is no good saying, 'We are going to teach people to swim; but there is a danger that if they go into the water they will get drowned, and, therefore, they must stay all the time on dry land.' The Government must determine what rules, if any, they are going to impose in this matter. They must realize that it is necessary to have an expanding economy. An expanding economy means expanding finance, it means expanding credit, and I think, more than possible it means expanding the public debt. That is not a necessary evil, provided it is watched and carefully guarded against abuse."

The following colloquy occurred:

"SIR GEORGE SCHUSTER: I am sure my right hon. friend will agree that behind what can fairly be described as sound finance there lie realities which cannot be disregarded, and it would be disastrous if this country were to disre-

gard these realities to the ruin of the country's credit or public confidence.

"MR. PETHICK-LAWRENCE: I have always taken the view that economic realities cannot be disregarded, but the principles of finance have been too rigidly interpreted.

"SIR GEORGE SCHUSTER: I only wanted to clear up what was in my right hon. friend's mind, because I think if he were to stand before the country as a supporter of deliberately unsound finance it would be a very serious matter. The whole question is how we are to interpret the rules of sound finance. Obviously, they have been too rigidly and narrowly interpreted in the past, and we all recognize that we shall have to have a more liberal interpretation in the future, but I put it to him that it would be a somewhat disastrous doctrine today to advocate working deliberately for an unbalanced budget as something good in itself. I think the words of the White Paper, if I interpret them rightly, had that in mind and proceeded to show how the main measures which it proposed do not involve the 'deliberate' unbalancing of the Budget. I do not think I am in disagreement with my right hon. friend on this, and I was very glad to hear the Minister of Labour say today that he did stand for reasonably sound finance. We have got to bear that in mind, although we recognize that a new interpretation is necessary."

The terrible irreconcilable was Sir H. Williams, who said: "The policy of unbalancing budgets is the policy of inflation, quite definitely. . . . The White Paper is an inflation policy and inflation is the worst form of protection. If you inflate your currency it means that everything that you export appears to be cheaper, but that effect is transitory. It is depreciating currency and not depreciated currency which produces that effect, which is temporary and passes away. Prices ultimately adapt themselves to the rate of exchange." He affirmed that the White Paper policy was one of cheap money, currency expansion and deficit spending and that it would fail. It had failed in the United States. He said:

"In 1934, the United States commenced the policy of the White Paper. There is nothing novel about it. For five years they deliberately 'primed the pump.' That was the phrase. This White Paper is only pump priming. Under the New Deal, tens of thousands of millions of dollars were spent, and they even paid people for not raising hogs. Every kind of economic folly in the form of this White Paper was committed by the United States. At the end of the period they had 7,500,000 out of work—a stable and high level of unemployment."

The Chancellor of the Exchequer was in a strange sea, but he was not lost, and he steered a beautiful course. He spoke of the revolutionary change of outlook as represented by the White Paper. It had come to be recognized that in framing the budget account must be taken not merely of the financial position of the government but of the general economic condition of the country. It followed that "taxation must no longer be viewed merely from the standpoint of its effectiveness in raising the necessary revenue." Coming then to the paragraphs of the White Paper that had been criticized as obscure and self-contradictory, he made this charming confession:

"In fact, these paragraphs owe their origin entirely to the Treasury, but I think that in some respects they are difficult because they deal with a highly technical subject-matter and because the authors of these paragraphs move in those particular regions with a freedom and an agility which I confess I sometimes view rather with alarm, because I move in them somewhat laboriously and with faltering steps. But I would like to try to explain in a few words the general effect of those paragraphs."

And what the Chancellor of the Exchequer understood those paragraphs to mean was this:

"The purpose of the paragraphs is to explain the bearing on the problems of central finance of the proposals and suggestions which are made elsewhere in the White Paper. That is the whole purpose of the paragraphs. Therefore, when the first paragraph talks of 'no deliberate planning for a deficit,' all that that means is that nowhere in the suggestions that have been made earlier in the White Paper has there been any hint that an unbalanced budget might be deliberately used as an instrument for improving the employment situation. Then the passage goes on to make a contrast between productive and unproductive debt—unproductive or dead-weight debt, as it is called. It contemplates that the dead-weight debt might be written off at a time when the productive debt is still increasing, and it indicates that there would be a definite advantage in that process.

"It goes on to say that the policy of reducing unproductive debt, while at the same time increasing productive debt, does not mean that the Government would be committed to a rigid plan of balancing budgets year by year; and in the next paragraph you find the argument examined that interest charges, being in the nature of a transfer payment, do not involve any additional burden on the community. The paragraph points out that, while that is, in some

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degree, perfectly true, nevertheless, heavy taxation has a cramping effect on enterprise, and that, moreover, the growth of debt must always be considered in relation to the expansion and resilience of the national income.

"These points are all brought out in those paragraphs, perhaps with some degree of condensation, which has made the argument difficult to follow. But, finally, in paragraph 79, the point is made that, while problems of central finance must be dealt with on a balance of considerations, we must never leave out of account the paramount importance of maintaining confidence at home and, perhaps even more, abroad. For that reason, it is essential that, whatever may happen to the budgets from year to year, they must be balanced over a period; and that must be seen to be a cardinal point in government policy. I hope that I may have made clearer than it was in the text of the Paper what the purpose of these passages was."

The debate continued for three days. When at last it came to the question, a Socialist member said that as only three votes were going to be cast against the White Paper, his own and two others, all on the ground that the funeral of private enterprise had been postponed, a division would be a waste of time. So the question was agreed to without a division, and the Government's White Paper was sustained.

In the House of Lords several weeks later there was a like result. The debate there occupied less than two days. The principal speech for the White Paper was by Lord McGowan, head of Imperial Chemical Industries, who believes in cartels and represents all the longing of British industry for a world of amiable and rationalized competition.

IV.—The Dilemma

Now what had happened? The drawing of a planned economy for Great Britain had been accepted. In this country, no doubt, the event will be treated as one of ideological meaning, as if the British had made a free choice between two systems. If that were true the doctrine of planned economy might be said to have acquired new prestige in the world—Great Britain of all nations to embrace it in place of the great liberal doctrine of free markets, free trade, free prices, and free enterprise. But it is not true. The choice was not entirely free; and wherein it was not free it signifies the length to which Great Britain will go to defend her place in the world. To defend it she is willing to impose upon herself disciplines not unlike the disciplines of war, and if the freedom of the individ-

ual must be sacrificed, that cannot be helped.

A member said: "Free citizens grant such power to the government only when they believe the existence of the nation is at stake."

That was, therefore, the first question: Was the existence of the nation at stake?

Another member commented upon the fact that the White Paper employed military terms, such as strategy and tactics. That, he thought, was quite right, because the methods of military thinking were helpful in a desperate situation. What he feared was that the planners would be weak in logistics. Would they know how to get their forces to the right place at the right time—and forces adequate to deal with the crisis? He added:

"Through all that I have to say there runs this very urgent plea—that it is time that we got away from general economic thesis to a realistic study of the British economic structure and of what is going to be the British problem. What will that be? An immensely formidable one, as was well appreciated in what the Minister told us this morning. It is the problem of satisfying the demands which our people will make at home, and of keeping our place in export markets. That means higher standards for all workers in production, and a greater allocation of manpower than ever before to nonproductive purposes, which we all accept, such as defense and education, as well as more generous allowances to the old and infirm. And all this greater productive effort will have to be achieved in circumstances of difficulty never paralleled in our history. It is common knowledge now that imports are vital to us, and that, to support the volume of imports we had before the war, we need to increase our exports in volume by 50%—even if we can retain the same favorable 'terms of trade' as before the war."

Running through the debate like a refrain was the statement of one economic imperative. Great Britain must increase her exports one-half. Why? Because she has no longer an *invisible* balance of trade in the form of income from investments overseas. Those investments are largely lost. Therefore, in order to buy from the world only as much as before of the things vitally needed to sustain her economy, such as food and raw materials, she must export much more as the *visible* equivalent, currently. If at the same time she is going to raise the standard of living in Great Britain she must export still more in order to buy still more from abroad, for her people will be consuming more than ever before.

The Minister of Production said:

"The subject of debtor and creditor nations lies at the root of all these problems. By a creditor nation I mean either a nation which has collected a large indebtedness for past services, or one that has on the other hand a current favorable balance of payments. We in the whole of our industrial life have always been a creditor nation, but we shall end this war as the largest debtor nation in the world. It is impossible to carry the debtor position with the mentality of a creditor. . . . We have to have a new mentality and put our national resources to work and make out of the skill of our own workers those things which we cannot pay for by exports.

But how may Great Britain's exports be increased one-half over what they were before the war?

In facing this problem, one member said: "We have to recognize the fact that many of our old markets are probably permanently lost; those for instance in the dominions and India . . . Australia is becoming a manufacturing country. The same observation applies to India, which is becoming more and more industrialized. . . . To offset losses of this kind we must make the most strenuous endeavors to increase our exports to other countries. Above all, we must hang on like grim death to the markets which are within our control, by which I mean British enterprises established abroad."

Then he added sadly: "The British enterprises abroad are suffering increasing difficulties. They have to meet a rise in cost due to legislation in the countries where they operate, social legislation to a large extent. . . . In many parts of the world these British enterprises also have to face an increasing nationalistic feeling, an increasing feeling on the part of the countries which in the past have accepted British capital and British enterprise that they are better able to carry out things for themselves. Therefore, I hold strongly that the Government should do all in its power to help these enterprises."

Another member said:

"I should like to know what steps the Government are taking now to insure that we do get a proper proportion of the export trade of the world. . . . Unless something is done now our American allies will be in a position to capture a large proportion of the export trade of the world."

The dilemma now evolves. Faced with the necessity greatly to increase her exports and do it at once against enormous odds, the conclusion is that with one mighty exertion British industries must be recreated to equal the most modern in the world, British resources must be intensely developed, and British labor at the same

time must be trained in skills and habits for the greater efficiency that is going to be required by the new industry that is going to be created. The feeling is that this heroic task cannot be left to private enterprise. It is an emergency, somewhat the same as the emergency of war. Therefore, people must be willing to accept a planned economy and to submit themselves to a kind of discipline hitherto unknown to them in time of peace, all because the fate of the nation is at hazard.

But now the question: Can a planned economy be made to work, even theoretically, except in a state of isolation? Can it work in a country that is unable to insulate itself against the free markets, free prices, and free enterprise of the outside world? Obviously, a country to whose economy exports and imports are vital cannot insulate itself.

One member said: "Other great communities which have developed themselves economically and have sought for a policy of full employment have taken the line of insulation, and in some cases complete insulation, from the outside world. Russia perhaps is the most extreme example. . . . The United States group also held themselves together by strong insistence upon a barrier to insulate them from the full impact of the developed industrial system of Europe, which at the time the United

States was starting its industrial career could have swamped out its growing industries. They insulated themselves, however, and produced this enormous industrial system which now is the wonder of the world."

Nevertheless, the Minister of Labor, speaking for the government, thought it could be done by national agreement. "We must have foreign trade," he said, "because the raw materials are outside our country. We must buy them and other countries must buy goods from us, if we are to have the raw materials, and we must do so under conditions which will insure that our internal economy is not brought near disaster by every storm that blows. Unless there is a method of insulation there is always the danger of the whole economic structure being upset. Therefore, in an association with other countries we must try to agree on measures which will prevent the appalling fluctuations in the national price level which characterized the years between the wars. . . . I am hopeful that the negotiations now being carried out throughout the United Nations will lead to that end. We have wholeheartedly committed ourselves to this in the Atlantic Charter."

The same hopeful thought is more carefully stated in the White Paper itself in a paragraph reading:

"A country will not suffer from mass unemployment so long as the total demand for its goods and services is maintained at a high level. But in this country we are obliged to consider external no less than internal demand. The Government are therefore seeking to create, through collaboration between the nations, conditions of international trade which will make it possible for all countries to pursue policies of full employment to their mutual advantage."

You may see that for a country like Great Britain the dilemma of a planned economy is extremely difficult. Her planned economy will not work unless it can be insulated, and it cannot be insulated because it is under a vital necessity to go on trading with the outside world. Her solution is for "all countries to pursue policies of full employment," like the British policy—that is to say, a world-wide planned economy, the White Paper universal.

But would it be a solution really, or a solution for long, with the trade of the world divided by rigid agreements, with governments themselves acting as the principal trading bodies, and with prosperity apportioned among the nations by writing on paper? Would Great Britain herself consent to be so bound forever, if her star should be rising again?

Australia Rejects a Planned Economy

THE GOVERNMENT of the Commonwealth of Australia, supported by the premiers of all six of the Australian states, went to the people with a referendum on this question:

Shall the Constitution be amended to give the government fourteen additional peacetime powers for a test period of five years after the war?

The electorate voted no. But it was close. The negative was carried by only a little more than seven votes in a hundred.

For purposes of war, extraordinary powers were conferred upon the government by the National Security Act. But these wartime powers were designed to shrink or altogether lapse with the return of peace; and what the government wanted was additional constitutional power to be exercised during a period of reconversion, estimated at five years. The fourteen additional constitutional powers proposed to be conferred upon the government would have enabled it to control wages, prices, production, distribution, employment, foreign exchange, money, the flow of capital

overseas, air transport, social security, and the compensation of veterans and their dependents.

The Australian law requires that when a referendum is held the principal arguments for and against the question shall be set forth in one official statement, in a fair and balanced manner. In this case the official statement, summarized, was as follows:

FOR

"Industry and manpower, swung over to war production under wider wartime powers, cannot be restored to a peacetime footing without similar and equally wide powers in peacetime;

"Peacetime powers are insufficient to consolidate social security advances (like child endowment and widows' pensions) introduced under wartime powers;

"Benefits enjoyed by primary producers from organized marketing during wartime can be safeguarded and increased only by national control of production and distribution of goods;

"Without powers to control the recon-

version of industry the use of raw materials, prices and profiteering, raising of money and employment, the Commonwealth will not be able to provide full employment nor to discharge its duty to returned servicemen and service women.

AGAINST

"The Commonwealth Government already has sufficient powers to carry postwar plans into effect;

"A referendum should not be held in wartime when the people's mind is so engaged with matters of war;

"Extra constitutional powers over employment would enable the Commonwealth Government to introduce industrial conscription;

"The people should not be asked to accept or reject the fourteen powers in a block. They should be free to vote for the powers individually."

Briefly therefore, though by a very narrow margin, the people of Australia rejected the idea of a peacetime adventure with planned economy.

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Lord Keynes' Preview of Bretton Woods

A Speech in the House of Lords

Lord Keynes delivered this speech just before leaving London to attend the International Monetary Conference at Bretton Woods. The plan he is talking about is the one that was adopted with some changes in detail but none in principle.

MY LORDS, it is almost exactly a year since the proposals for a Clearing Union were discussed in your Lordships' House. I hope to persuade your Lordships that the year has not been ill-spent. There were, it is true, certain features of elegance, clarity, and logic in the Clearing Union plan which have disappeared. And this, by me at least, is to be much regretted. I like this new plan and I believe that it will work to our advantage. Your Lordships will not wish me to enter into too much technical detail. I can best occupy the time available by examining the major benefits this country may hope to gain from the plan; and whether there are adequate safeguards against possible disadvantages.

We shall emerge from this war, having won a more solid victory over our enemies, a more enduring friendship from our allies, and a deeper respect from the world at large, than perhaps at any time in our history. But the full price of this has still to be paid. I wish that this was more generally appreciated in the country than it is. In thus waging the war without counting the ultimate cost, we—and we alone of the United Nations—have burdened ourselves with a weight of deferred indebtedness to other countries beneath which we shall stagger. We have already given to the common cause all, and more than all, that we can afford. It follows that we must examine any financial plan to make sure that it will help us to carry our burdens and not add to them.

Five Advantages

What, then, are these major advantages that I hope for from the plan to the advantage of this country? First, it is clearly recognized and agreed that, during the postwar transitional period of uncertain duration, we are entitled to retain any of those wartime restrictions and special arrangements with the sterling area and others which are helpful to us, without being open to the charge of acting contrary to any general engagements into which we have entered.

Second, when this period is over and we

are again strong enough to live year by year on our own resources, we can look forward to trading in a world of national currencies which are interconvertible. For a great commercial nation like ourselves this is indispensable for full prosperity. Sterling itself, in due course, must obviously become, once again, generally convertible. For, without this, London must necessarily lose its international position, and the arrangements in particular of the sterling area would fall to pieces. . . . So far from an international plan endangering the long tradition, by which most Empire countries, and many other countries, too, have centered their financial systems in London, the plan is, in my judgment, an indispensable means of maintaining this tradition. With our own resources so greatly impaired and encumbered, it is only if sterling is firmly placed in an international setting that the necessary confidence in it can be sustained. Indeed, even during the transitional period, it will be our policy, I hope, steadily to develop the field within which sterling is freely available as rapidly as we can manage. Now, if our own goal is, as it surely must be, the general interconvertibility of sterling with other currencies, it must obviously be to our trading advantage that the same obtains elsewhere, so that we can sell our exports in one country and freely spend the proceeds in any other. . . .

Third, the wheels of trade are to be oiled by what is, in effect, a great addition to the world's stock of monetary reserves, distributed, moreover, in a reasonable way. . . . Who is so confident of the future that he will wish to throw away so comfortable a supplementary aid in time of trouble? Do the critics think it preferable, if the winds of the trade cycle blow, to diminish our demand for imports by increasing unemployment at home, rather than meet the emergency out of this fund which will be expressly provided for such temporary purposes?

I emphasize that such is the purpose of the quotas. They are not intended as daily food for us or any other country to live upon during the reconstruction or afterwards. Provision for that belongs to another chapter of international cooperation upon which we shall embark shortly unless you discourage us unduly about this one.

There is another advantage to which I would draw your Lordships' special atten-

tion. A proper share of responsibility for maintaining equilibrium in the balance of international payments is squarely placed on the creditor countries. This is one of the major improvements in the new plan. The Americans, who are the most likely to be affected by this, have, of their own free will and honest purpose, offered us a far-reaching formula of protection against a recurrence of the main cause of deflation during the interwar years, namely, the draining of reserves out of the rest of the world to pay a country which was obstinately borrowing and exporting on a scale immensely greater than it was lending and importing. Under clause VI of the plan a country engages itself, in effect, to prevent such a situation from arising again, by promising, should it fail, to release other countries from any obligation to take its exports, or, if taken, to pay for them. I cannot imagine that this sanction would ever be allowed to come into effect. If by no other means than by lending, the creditor country will always have to find a way to square the account on imperative grounds of its own self-interest. For it will no longer be entitled to square the account by squeezing gold out of the rest of us.

Fifth, the plan sets up an international institution with substantial rights and duties to preserve orderly arrangements in matters such as exchange rates which are two-ended and affect both parties alike, which can also serve as a place of regular discussion between responsible authorities to find ways to escape those many unforeseeable dangers which the future holds. This is an organization between governments, in which central banks only appear as the instrument and agent of their government.

For What Considerations

Here are five advantages of major importance. The proposals go far beyond what, even a short time ago, anyone could have conceived of as a possible basis of general international agreement.

Nevertheless, before you will give them your confidence, you will wish to consider whether, in return, we are surrendering anything which is vital for the ordering of our domestic affairs in the manner we intend for the future.

My Lords, the experience of the years before the war has led most of us, though some of us late in the day, to certain firm

conclusions. Three, in particular, are highly relevant to this discussion. We are determined that in future the external value of sterling shall conform to its internal value as set by our own domestic policies and not the other way round. Secondly, we intend to retain control of our domestic rate of interest, so that we can keep it as low as suits our own purposes, without interference from the ebb and flow of international capital movements or flights of hot money. Thirdly, whilst we intend to prevent inflation at home, we will not accept deflation at the dictate of influences from outside. In other words, we abjure the instruments of bank rate and credit contraction operating through the increase of unemployment as a means of forcing our domestic economy into line with external factors.

Have those responsible for the monetary proposals been sufficiently careful to preserve these principles from the possibility of interference? I hope Your Lordships will trust me not to have turned my back on all I have fought for. To establish those three principles which I have just stated has been my main task for the last 20 years. Was it not I, when many of today's iconoclasts were still worshippers of the calf, who wrote that "Gold is a barbarous relic"? Am I so faithless, so forgetful, so senile that at the very moment of the triumph of these ideas when, with gathering momentum, governments, parliaments, banks, the press, the public, and even economists have at last accepted the new doctrines, I go off to help forge new chains to hold us fast in the old dungeon? I trust, My Lords, that you will not believe it.

Heresy Becomes Orthodox

Not merely as a feature of the transition, but as a permanent arrangement, the plan accords to every member government the explicit right to control all capital movements. What used to be a heresy is now endorsed as orthodox. In my own judgment, countries which avail themselves of this right may find it necessary to scrutinize all transactions, so as to prevent evasion of capital regulations.

The question, however, which has recently been given chief prominence is whether we are in any sense returning to the disabilities of the former gold standard, relief from which we have rightly learned to prize so highly. If I have any authority to pronounce on which is and what is not the essence and meaning of a gold standard, I should say that this plan is the exact opposite of it. . . .

There must be some price for gold; and so long as gold is used as a monetary re-

serve it is most advisable that the current rates of exchange and the relative values of gold in different currencies should correspond. The only alternative to this would be the complete demonetization of gold. I am not aware that anyone has proposed that. For it is only common sense as things are today to continue to make use of gold and its prestige as a means of settling international accounts. To demonetize gold would obviously be highly objectionable to the British Commonwealth and to Russia as the main producers, and to the United States and the western Allies as the main holders of it. Surely no one disputes that. On the other hand, in this country we have already dethroned gold as the fixed standard of value. The plan not merely confirms the dethronement but approves it by expressly providing that it is the duty of the fund to alter the gold value of any currency if it is shown that this will be serviceable to equilibrium.

Epoch

In fact, the plan introduces in this respect an epoch-making innovation in an international instrument, the object of which is to lay down sound and orthodox principles, for instead of maintaining the principle that the internal value of a national currency should conform to a prescribed *de jure* external value, it provides that its external value should be altered if necessary so as to conform to whatever *de facto* internal value results from domestic policies, which themselves shall be immune from criticism by the fund. Indeed, it is made the duty of the fund to approve changes which will have this effect. That is why I say that these proposals are the exact opposite of the gold standard. They lay down by international agreement the essence of the new doctrine, far removed from the old orthodoxy. If they do so in terms as inoffensive as possible to the former faith, need we complain?

No, my Lords, in recommending these proposals I do not blot a page already written. I am trying to help write a new page. Public opinion is now converted to a new model, and I believe a much improved model, of domestic policy. That battle is all but won. Yet a not-less-difficult task still remains, namely, to organize an international setting within which the new domestic policies can occupy a comfortable place. Therefore, it is above all as providing an international framework for the new ideas and the new techniques associated with the policy of full employment that these proposals are not least to be welcomed.

The Flight from Competition

Lord McGowan has used the occasion of the annual report of Imperial Chemical Industries to make a remarkable confession of faith. He believes in large-scale organization and he believes in international agreements with private groups abroad "as instruments of world rationalization of industry." He is frightened that without such coordination his industry would "suffer the economic anarchy of cut-throat competition." Candor commands respect, but it is not in itself an answer to the case against these private empires. Lord McGowan knows that our future standard of living will be largely dependent, as he puts it, on the energy of our people, our technical development, and our success in foreign trade. He knows that we have far to go to catch up with the productivity of labor in America and that we shall not have a dog's chance unless the skill and ingenuity of the people is matched "by ability and skill in management." That is where the doubt comes in. Has Lord McGowan realized how far the ability and skill of management has fallen behind the times? Have all those industrial captains who have escaped from competition to monopoly realized that in stilling their fear of what they misname "economic anarchy" they have killed the power that kept them on the move?

—from The Manchester Guardian Weekly.

The Gold Trouble

Most of the criticism of the international monetary plan in last week's Commons debate sprang from fear of a return to the gold standard and of the advantage that might be given to the United States by a system in which gold took an important part. This line was taken by both Conservative and Labour speakers. The two most outspoken Labour critics were Mr. Shinwell and Mr. Stokes. Mr. Shinwell saw American gold and the bargaining capacity of the British market as balancing factors, and thought the scheme outlined in the White Paper threw away the British advantage. . . . On the Conservative side, Mr. Boothby said it was madness to tie ourselves to the United States until we knew whether they were going to pursue an expansionist policy. . . . Sir John Anderson, replying, denied any return to gold. It was Mr. Pethick-Lawrence, for all his doubts, who put his finger on the two great advantages—the pressure on creditors who will not buy, and the making of the misfortunes of any individual country into a world concern.

—from The Manchester Guardian Weekly.

Moneta Imaginaria

The Fiscal Realism of Beardsley Ruml

THE National Planning Association had the hardihood to attack the subject of postwar fiscal and monetary policy head on and emerged from the encounter holding the animal by the tail. In evidence there is *Planning Pamphlet*, No. 35, entitled, "Fiscal and Monetary Policy," by Beardsley Ruml and H. Chr. Sonne, with a foreword by the executive director saying: "While this memorandum has benefited from many discussions within the NPA committee framework and with outside groups, it is presented as the responsibility of the authors; and, therefore, does not necessarily express the opinion of the NPA Board of Trustees."

The NPA Business Committee says of the memorandum that without approving it in detail it can agree with the broad principles; the NPA Agriculture Committee says it wants to go much further, and may find the memorandum helpful in developing its own views; and the NPA Labor Committee perceives significant areas of agreement and hopes that they may be broadened and altered into joint recommendation on postwar fiscal policy.

The authors, speaking for themselves, say: "After all, the fiscal and monetary policy which we hope may prove acceptable merely recommends that we act deliberately, wisely, and with foresight in achieving what nations in the past have been forced to do, but generally too late and clumsily."

This statement seems to mean that there is a kind of inevitable pattern that nations in the past have been forced to follow, and it behooves us, therefore, only to adopt and perfect it in time. Unfortunately, the historical particulars are omitted such as a true description of the pattern and where and how it has worked in the past.

The first subject is federal budget policy, and it is introduced with a challenge to the fundamentalists, as follows:

"The basic economic issue is, should (a) the financial operations of the national state be aimed at being neutral in their net influence on effective demand, or should (b) the financial operations of the national state complement and supplement the activities of private enterprise when needed to maintain an effective demand adequate to sustain high levels of employment at or about prevailing price levels? Putting it another

way, should (a) private business and employment be permitted without federal budgetary intervention to find its own price and cost level under competition, with the hope that there should be provided continuing high employment at such level; or should (b) the Federal Government intervene in the operation of the price system by supplementing private demand and investment and thereby high employment through its aggregate financial transactions?"

The authors of the memorandum make their choice with ease, saying: "We reject as unrealistic the possibility of a neutral federal budget policy and accept the alternative, federal cooperation, presumably through budgetary operations when requisite to maintain adequate, effective demand, and thereby to contribute to the attaining of high employment."

And they add: "We would arrive at this same conclusion if we were dealing with an imaginary, vigorous country with a free economy, effective anti-trust laws, and presence of truly free enterprise. Assuming in such country, over a five-year period, stability of employment, working hours, taxes, and circulating media and velocity, there would be more and better goods for distribution as a result of improved technology and skill. Inasmuch as the circulating media and velocity are assumed to be unchanging, the same dollar amount would at the end of the five-year period buy, let us say, 10% more of necessities."

What would be the matter with a country like that? Apparently private enterprise, entirely free, would be doing there its true job, which is progressively to cheapen the satisfactions of daily life; and although wages and incomes were stationary, still everyone would be steadily better off as the buying power of money increased.

Nevertheless, the authors say, two things would be wrong with that country; namely, first, the fall in prices might not always be slow and regular, but sometimes steep, which of course would be bad; and, in the second place, "the overwhelming majority of the people would prefer to see this improved condition expressed in an increased money income even though they would be equally well off with a stationary money income and correspondingly lower prices." Therefore, even in a country like that, the authors say, "it follows that government cannot ignore the necessity of ensuring at all times active purchasing power that stands in reasonably stable proportion to

the potential supply of goods, in order to prevent too drastic fluctuation in prices."

That is only to say that people would be happier with prices standing still and wages and income rising, not because they would be any better off than if wages and income stood still and prices were falling, but because they love the feeling of more money in their pockets. That may be true. And yet it is perhaps the last argument that could be imagined for a planned economy.

"Such a policy," the authors say, "does not contemplate permanent budget deficits as a necessary element of the economy." It contemplates deficit spending by the government only when necessary to keep enough money in the people's pockets. Furthermore, they say that "the stimulus to purchasing power when needed may come in part through reduction in taxes. Such reduction in taxes should be made when it will do the most good in creating demand and in encouraging private enterprise and investment."

Coming to the subject of taxation, the authors are on brilliant ground. They lay down two general propositions. The first one is:

"Tax revenue should balance expenditures at some agreed level of high employment and high production, and should provide for the amortization of the national debt when employment and production exceed these levels; but not before."

What does that mean? Suppose the government requires for all purposes \$18 billion revenue for the year. In the old-fashioned way the government would sit up nights thinking of ways and means. The only question would be how to abstract \$18 billion from the national income. The method here proposed is quite the reverse. The first question would be: "What must the national income be to provide high employment? If the answer is \$140 billion, the government says: "Then let's assume an income of \$140 billion. That must come first. Now let the experts find what rates of taxation are necessary to produce for the government a revenue of \$18 billion out of an assumed national income of \$140 billion. Such will be the tax rates for the coming year."

What happens if the assumed national income of \$140 billion does not materialize? In that case the government will not, from those rates, get the revenue it needs, and it will have a deficit to take care of; but on the other hand, if it had insisted on taking \$18 billion out of a national income that was falling below \$140 bil-

lion the effect might be to cause the national income to fall still lower.

The authors' second proposition is:

"The operations of the system of production and distribution should be, in general, federal income tax free."

Five specific recommendations follow:

"1. Federal income taxes on corporations should be abolished. A small franchise tax of 5% is proposed.

"2. The graduated progressive income tax should be relied on as the chief source of revenue.

"3. No general sales tax should be imposed.

"4. Excises should be retained only on tobacco and alcohol, and, perhaps, on gasoline.

"5. Social security financing should be revised to stop building reserves at times of underemployment."

The first three reasons for recommending that the income tax on corporation profits be abolished are:

(1) That it tends to raise the cost of goods and services to the consumer;

(2) That it tends to keep wages down, and,

(3) That it acts to discourage adventure capital.

The national economy, the authors believe, would be stimulated and thrilled if the \$15 or \$20 billion a year now taken into the United States Treasury from the earnings of corporations were left free to produce their natural effects upon prices, wages, and dividends. Partly they would be absorbed in lower prices to the consumer; the rest would be divided between the wage earner and stockholder. The higher wages and dividends, of course, would be subject to the personal progressive income tax, which, the authors hold, should be the principal source of federal revenue.

The authors are aware that the idea of abolishing the income tax on corporation profits will take a good deal of selling. Reason and forethought will have to argue for it against all that injurious feeling about profit that has been cultivated during the last few years in the popular mind, and probably also against the government, since it is not in the nature of any government willingly to surrender the golden goose.

Beside the three ground reasons for abolishing the tax, these lines of argument are laid down in the memorandum:

"Business judgment as to what is economically sound in terms of expenditure, pricing, capital transactions, and the like is distorted by tax considerations, and the higher the federal tax the greater

the distortion. At the present high corporate rates, the tax consequences of business transactions have become a dominating factor in corporate management, often outbalancing economic desirability. As a conspicuous example, the present tax pattern presents a strong obstacle to desirable equity financing, since fixed charges on bonds and other obligations are deductible in computing taxable corporate income, whereas dividend payments are not.

"The taxation of corporate profits prior to distribution imposes double taxation on dividend income without regard to progressive rates. A tax on corporation earnings is a tax against the individual owners, and yet the earnings of the small investor with small income are taxed at the same rate as those of the large income. Literally, millions of small stockholders are the victims of the inequity of this double taxation. The earnings are first taxed in the hands of the corporation at full, identical rates for all stockholders, and then that portion of the earnings distributed as dividends to stockholders is taxed again, but only in the latter case at progressive rates.

"The need is for revision that would eliminate the corporation income tax as a cost of production and distribution, that would tax the shareholder at least once and yet once only on the earnings attributable to him, and that would encourage rather than inhibit the distribution of earnings as dividends."

The authors are much less dogmatic about their tax proposals than they are about an unneutral budget policy. They say there is no perfect solution of the tax problem. Their wish is to provoke on these lines discussion and controversy; and it is a wish that may well come true.

Ad Infinitum

BETWEEN those like Ruml and Sonne who for the sake of the national economy want to abolish the income tax on corporation profits and keep a high individual income tax, and those, on the other hand, who think it is the high individual income tax that hurts, it will be difficult enough for the Ways and Means Committee of the House to find its way. If puzzles can soothe the harrassed mind it might try one by Walter G. O'Neil in the summer number of the *Harvard Business Review* entitled "Do High Corporate Taxes Deter Investment?" Mr. O'Neil thinks they do not, at least, not necessarily. He says: "As a matter of fact, the effect of high corporate tax rates may be

to reduce the risk in new investments to such an extent that the profit retained after taxes will be in exactly the same proportion to the risk as if there were no corporate taxes at all." To prove it he sets up the following exercise:

"Assume that a proposed investment in physical assets of \$100,000 is being contemplated by an established corporation with a reasonably assured annual earning power in excess of that figure. To such a corporation the opportunity to charge, in the form of expense, depreciation, or obsolescence, the cost of the new investment against earnings that would otherwise be taxed at the high rate would render new investment more attractive than would be the case were income taxation moderate or nonexistent.

"In the assumed situation, if corporate income were not taxed, the entire risk of the proposed investment of \$100,000 would be borne by the corporation. If income of corporations were subject to a tax of, let us say, 60%, however, our hypothetical corporation could embark on the contemplated venture without endangering more than \$40,000 of its own capital, since the entire \$100,000 invested could be charged off over a period of time against income that would otherwise be taxed away to the extent of 60%. In other words, \$60,000 of the gross cost of the new project would come from tax savings, and the net amount risked would be only \$40,000. Moreover, in proportion to the net amount risked, the profit or loss would be unaffected by the corporate tax rates. For example, a profit of 8%, or \$8,000, would be reduced by the 60% tax to \$3,200, which is exactly 8% of the \$40,000 risked."

This is a parlor trick. In its simple form it can be played with matches.

Let the tax be 99% instead of 60%. Then in making an investment of \$100,000 the corporation would be risking only \$1,000 of its own money really, because otherwise the government would have taken away \$99,000. Now if the new investment yields a profit of 8%, which is \$8,000, and that profit of \$8,000 is taxed at 99%, the tax will be \$7,920. That leaves \$80. On the \$1,000 that was risked \$80 is a profit of 8%. Eureka!

No Dogma about Debt

IT MAY also be asked whether public financing of a large portion of an expanded construction area and social expenditures might not lead to a dangerous increase in the public debt. Certainly no one can maintain that the public debt has no effect upon the economy, but the fundamental effect of a public debt upon a

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October, 1944

Shapes of Thought

*The Road to Serfdom

FRIEDRICH A. HAYEK was an Austrian who became an eminent economist in his native country. At the end of his career there he was Director of the Austrian Institute for Economic Research and Lecturer in Economics at the University of Vienna. Then he went to England to teach economics at the University of London. Later he joined the faculty of the London School of Economics and became a British subject. Now he puts aside his professional work to write what he calls a "political book."

In the preface he says he had "every possible reason for not writing or publishing this book," knowing beforehand that it would cause scandal in the academic world in which he wishes to go on living and working and create against him a professional prejudice. Then why did he do it?

He was moved by the sensation of seeing in England, as at a movie, the beginning of a picture he had seen before—"twice watching a very similar evolution of ideas." The picture he had seen before was the German picture, and the truth he felt obliged to write was this: "It is Germany whose fate we are in some danger of repeating." He uses the pronoun *we* as a citizen of Great Britain.

He is not thinking of Hitlerism, nor of Hitler's Germany, but of something very much deeper; namely, "A similarity between the trend of thought in Germany during and after the last war and the present current of ideas in this country." By *this country* he means Great Britain; and he says: "There exists now in this country certainly the same determination that the organization of the nation we have achieved for the purposes of defense shall be retained for the purposes of creation. There is the same contempt for nineteenth century liberalism, the same spurious *realism* and even cynicism, the same fatalistic acceptance of *inevitable trends*. And at least nine out of every ten of the lessons which our most vociferous reformers are so anxious we should learn from this war are precisely the lessons which the Germans did learn from the last war, and which have done so much to produce the Nazi system."

In Germany, he says, there was a natural kinship between Prussianism and socialism, derived from their common past.

"The Road to Serfdom," by Friedrich A. Hayek. University of Chicago Press.

sion for organization, but it was neither Prussianism nor anything specifically German that produced totalitarianism. What produced it was socialism and it proceeded from the masses; and the supreme tragedy, still unseen, is that "in Germany it was largely people of good will," men who were greatly admired by the British themselves, who prepared, if they did not create, the forces that brought Hitlerism to pass.

Therefore, what happens to the socialist dream? What turns it into a horrible nightmare inevitably? Why is it that the men of good will, these idealists and reformers, find themselves, or find others in their stead, imposing their perfect world upon people by means which they themselves would have abhorred to begin with? Why was brutal tyranny, with its mutilation of the individual, bound to be the end of the Utopian dream of Marx, who, scorning Utopias, was, after all, the greatest Utopian of them all? He was the greatest of them all because he believed that after a temporary dictatorship of the proletariat the state would wither away and vanish, leaving people to be forever afterward free and happy, governed only by the golden rule.

The author's task is to answer these questions. In the performance of it he brings to bear upon socialism somewhat the technic of psychoanalysis.

To begin with, a socialist economy must be a planned economy. A planned economy inevitably tends to bring the totalitarian state to pass because "economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends."

Moreover, in a planned economy there must be a supreme end; and the crucial point is that "individual freedom cannot be reconciled with the supremacy of one single purpose to which the whole society must be entirely and permanently subordinated." In the event of war or a great temporary disaster the end may be simply survival, and in that case, of course, individual freedom will be a secondary value until survival is achieved. But let it be any other end, even that of "doing for the purposes of peace what we have learned to do for the purposes of war," or the single aim of "full employment at any price," and individual freedom will still be lost. Why is this?

In order that a planned economy may achieve its end it is not enough that people shall be made to work for that end.

society is related to how the holding of the bonds and how the taxes from which the interest on the public debt is financed affect the distribution of income in the country. It seems to me that the bonds are so distributed at the present time and our tax structure is such that the public debt does not affect the distribution of income particularly unfavorably.

A wide distribution of bonds is in a certain sense a kind of national insurance system to which all of us make more or fewer contributions in the form of taxes collected to finance the interest, and from which more or less all of us get certain benefits in the interest payments that are received by the bondholders.

What is even more important is the fact that these bonds, in time of distress, can be sold or used as a means of borrowing, so that they give a sense of security which is extremely important.

This does not mean, of course, that it is desirable under all conditions to go on increasing the public debt. That all depends on various factors. I would hold that we should have no dogma about decreasing the debt, and no dogma about increasing the debt, but that we should control expenditures, taxes and borrowing with a view to promoting economic stability at full employment.

—Alvin H. Hansen.

Niggardly Townsend Plan

MR. BURDICK. Mr. Speaker, our progress is swift. A few years ago, when I addressed this House the first time on the Townsend recovery plan, many of my good friends stated to me afterward that they could not understand how it was that I appeared sound on all other measures but would at the same time swallow the absurdities of the Townsend plan. They said, "It will not work; it will cost too much; it is economically unsound."

Today we are treated with a sensation of political back handsprings. All thoughts expressed in the above characterization of the Townsend plan are abandoned and the economically sound Townsend plan has been superseded, outdistanced, and abandoned. There are no more warnings sounded in this House that anything is unsound; nothing will cost too much any more. This sentiment has come forth in the sudden explosion of the George bill to amend the Social Security Act. . . . If there are visionary provisions in the Townsend bill, they have been so far outstripped in imaginary results in this bill, that the Townsend bill can truly be said to be a most conservative bill.

—From the Congressional Record.

Debt

Whether public or private, the debt upon an individual or a nation is a dangerous thing. Certainly no public debt has been so large as the federal debt upon

They must believe in it too. Therefore, thought must be controlled and nationalized. This is done by propaganda, and thereby the basis of morals is undermined, because people are no longer free to make moral decisions. One of the very fine passages of the book occurs here:

"Only where we ourselves are responsible for our own interests and are free to sacrifice them has our decision moral value. We are neither entitled to be unselfish at someone else's expense, nor is there any merit in being unselfish if we have no choice. . . . Freedom to order our own conduct in the sphere where material circumstances force a choice upon us, and responsibility for the arrangement of our own life according to our own conscience, is the air in which alone moral sense grows and in which moral values are daily recreated in the free decision of the individual. Responsibility, not to a superior, but to one's conscience, the awareness of a duty not exacted by compulsion, the necessity to decide which of the things one values are to be sacrificed to others, and to bear the consequences of one's own decision, are the very essence of any morals which deserve the name."

Hence what is to us the incomprehensible moral behavior of people in a totalitarian regime, especially in Germany, where the supreme authority becomes wicked. Why should the supreme authority become wicked? Is that inevitable? The author thinks it is and gives a chapter to it, entitled, "Why the Worst Get on Top." So why? The author answers:

"Just as the democratic statesman who sets out to plan economic life will soon be confronted with the alternative of either assuming dictatorial powers or abandoning his plans, so the totalitarian dictator would soon have to choose between disregard for ordinary morals and failure. It is for this reason that the unscrupulous and uninhibited are likely to be more successful in a society tending towards totalitarianism. Who does not see this has not yet grasped the full width of the gulf which separates totalitarianism from a liberal regime, the utter difference between the whole moral atmosphere under collectivism and the essentially individualist Western civilization."

Now what does this morally uninhibited leader need? He needs the blind support of the largest possible mass that can be made to think and feel alike, and—" . . . if we wish to find a high degree of uniformity and similarity of outlook, we have to descend to the regions of lower moral and intellectual standards where the more primitive and common instincts and tastes prevail. This does not mean that the ma-

jority of people have low moral standards; it merely means that the largest group of people whose values are very similar are the people with low standards. It is, as it were, the lowest common denominator which unites the largest number of people. If a numerous group is needed, strong enough to impose their views on the values of life on all the rest, it will never be those with highly differentiated and developed tastes — it will be those who form the 'mass' in the derogatory sense of the term, the least original and independent, who will be able to put the weight of their numbers behind their particular ideals."

Another reason why, at last, the worst must come to the top is that a time comes when the idealists who have set the forces in motion shrink from going on because they see and detest the means that become logically necessary; at that point leadership passes to those who have no moral scruples.

If, however, that group that thinks and feels alike and supports the regime is in fact a majority, does that not represent a kind of democracy? A kind, yes, but not the kind that guarantees freedom. In so far as democracy ceases to be a guarantee of individual freedom it may persist even in a totalitarian regime. Here the author says:

"The fashionable concentration on democracy as the main value threatened is not without danger. It is largely responsible for the misleading and unfounded belief that so long as the ultimate source of power is the will of the majority, the power cannot be arbitrary. The false assurance which many people derive from this belief is an important cause of the general unawareness of the dangers which we face. There is no justification for the belief that so long as power is conferred by democratic procedure it cannot be arbitrary; the contrast suggested by this statement is altogether false: it is not the source but the limitation of power which prevents it from being arbitrary. Democratic control may prevent power from becoming arbitrary, but it does not do so by its mere existence. If democracy resolves on a task which necessarily involves the use of power which cannot be guided by fixed rules, it must become arbitrary power."

In any case, he adds, "the clash between planning and democracy arises simply from the fact that the latter is an obstacle to the suppression of freedom which the direction of economic activity requires."

Planning, having in view "a central direction of economic activity according to a single plan, laying down how the re-

sources of society should be consciously directed," is a one-way road in which turning is very difficult. Here the author touches what Herbert Spencer called momentum, meaning the cumulative effect of one thing at a time, each thing seeming in itself to be so desirable that resistance is disarmed, like the steps toward social security, each one producing, nevertheless, remote consequences which are not considered—which are often not foreseen at all—until they begin to run together, making first a stream and then a torrent. Thus, "the close interdependence of all economic phenomena makes it difficult to stop planning just where we wish, and once the free working of the market is impeded beyond a certain degree the planner will be forced to extend his controls until they become all-comprehensible."

Moreover, these progressive economic necessities, inherent in planning, are "strongly reinforced by certain social and political tendencies," increasing in strength as the planning extends, so that: "Once government has embarked on planning for the sake of justice, it cannot refuse responsibility for anybody's fate or position." Thus you arrive at the monster state, with everyone depending upon it for status, livelihood, and security, or what Belloc described in "The Servile State."

On this road, almost unawares, England, he says, has "progressively abandoned that freedom in economic affairs, without which political and personal freedom has never existed in the past." Forgetful of the warning that socialism means slavery, England, he says, has been steadily moving in the direction of socialism, thinking or hoping that there may be a kind of compromise, or a stopping half way—that is, such a thing as a mixed economy, partly controlled and partly free. But, says Professor Hayek, planning is a medicine which in small doses cannot produce the effects intended. "Both competitive and central direction become poor and inefficient tools if they are incomplete; they are alternative principles used to solve the same problems, and a mixture of the two means that the result will be worse than if either system had been consistently relied upon."

The conclusion is that the principle of free competition—the free market, the free price, the free disposal of property—is the only power of economic regulation that can be reconciled with individual freedom.

In England, where the book first appeared, critics have called this a retreat to *laissez faire*. Many American critics will no doubt say the same thing. But what Professor Hayek is saying is that "the al-

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ternative to a planned economy is not *laissez faire*, but a rational framework for competition." Competition is not something that just happens, or something that can be trusted to go on happening. It has to be planned for and protected, and protected not least against two great vested interests tending always toward totalitarianism, namely, organized labor and organized capital; and to provide a strong framework for free competition, under a rule of law, is a proper function of government. He says:

"In no system that could be rationally defended would the state just do nothing. An effective competitive system needs an intelligently designed and continuously adjusted legal framework as much as any other. Even the most essential prerequisite of its proper functioning, the prevention of fraud and deception (including exploitation of ignorance) provides a great and by no means yet fully accomplished object of legislative activity. . . . The task of creating a suitable framework for the beneficial working of competition had, however, not yet been carried very far when states everywhere turned from it to that of supplanting competition by a different and irreconcilable principle. The question was no longer one of making competition work and of supplementing it, but of displacing it altogether. It is important to be quite clear about this: the modern movement for planning is a movement against competition as such, a new flag under which all the old enemies of competition have rallied. And although all sorts of interests are now trying to reestablish under this flag privileges which the liberal era swept away, it is socialist propaganda for planning which has restored to respectability among liberal-minded people opposition to competition, and which has effectively lulled the healthy suspicion which any attempt to smother competition used to arouse. What in effect unites the socialists of the left and the right is this common hostility to competition and their common desire to replace it by a directed economy."

A common indictment of competition is that it is blind. But so has the symbol of justice been blind from ancient times down to this day. "Although competition and justice may have little else in common," says Professor Hayek, "it is as much a commendation of competition as of justice that it is no respecter of persons."

For American readers the significance of Professor Hayek's book lies in the fact that for every likeness he finds between the thought now current in England and the thought that raised hideous totalitarianism in Europe there is a corresponding

likeness here between American and British thinking; and here also the same soothing idea as in England that there is a half-way place to stop.

There is no comparable book. It is written without passion or invective. Its impact upon the American mind ought to be terrific. If it is not, then we may believe that we are even further on that road than we think. G. G.

Mind and Morals of Harold J. Laski

ANYTHING that happens in the mind of Harold J. Laski immediately causes a *book to appear and is then celebrated as an intellectual event. This is so because Mr. Laski is the St. Augustine of the Russian Revolution, the foremost theologian of Marxian doctrine in the English language, and dean of the British school of revolutionary thought. The items of his academic prestige take half a column of fine type in the British "Who's Who." He is well known in this country as a lecturer in history, economics and the social sciences at Harvard and Yale, and in some ways even better known as guest member and mentor of the original New Deal brain cult, especially during the first one hundred days.

For all of these reasons it is a kind of news that Mr. Laski has arrived safely at the inner temple of religious mysticism. The Russian idea, he says in this book, is the successor of Christianity on earth, and has the same mission to perform; namely, to transform all values, to make civilization over, and to deliver mankind from despair. Like early Christianity, he says, the Russian idea is often encountered in ugly forms; like early Christians, Communists are often brutal and cruel. "They make their rivals angry because they so often seem to operate at two moral levels, one for themselves and one for those who do not feel able to share their faith. They treat disagreement as a form of sin, with something of the passion which early Christian literature displays. . . . They are even objects of the same ugly persecution as that which was visited upon the Christians before the final decision of Constantine." In the Russian idea at this time, as in Christianity nearly 2,000 years ago, lies the one and only hope of mankind. Owing to his own frailties and follies man

*"Faith, Reason and Civilization," by Harold J. Laski. The Viking Press.

must expect disappointments of the same kind. For example, the disparity between the dream Lenin dreamed and the reality that has so far come of it is like "the gap between the faith of the gospels and the achievement of the church." All the same, the transition from Paganism to Christianity was accomplished and mankind was saved. Faith did it. And so again man must save himself by faith—by embracing the Russian idea as an act of faith. Faith in the Russian Revolution, he says, "possesses for its devotees the same kind of magic hold as Christianity exercised over its first followers."

Like Christianity, the Russian idea has a mysterious power to make people know something they do not know they know, and of this Stalingrad is the eternal symbol, for: "Whether it be Mr. Roosevelt or Mr. Churchill, a pilot in his Spitfire, or an ordinary private in the infantry of the North African army, there is a sense in him that in some way, how, perhaps, he remains uncertain, Stalingrad is the resolution of a problem for him that he must solve or die."

Christianity, alas! went bankrupt. It forgot, or forsook, the sacred principle that the many must keep their hold over the few. Wealth ruined it, The Russian idea restores what Christianity lost or threw away. But that is not all. The Russian idea is superior to Christianity, for whereas Christianity kept the masses in subjection by holding out to them a promise of heaven hereafter, the "Russian principle seeks a salvation for the masses by fulfillment in this life, and thereby orders anew the actual world we know."

Heaven here, not hereafter, lest it should turn out that there is no heaven hereafter; but if there is, then, of course, it will be pure plus.

Since there is to be a transvaluation of all values, it follows that the Russian idea makes its own moral code and can make it anything it likes; and since it is an idea that is above reason and belongs to the realm of faith, it follows further that it cannot be bound by logic. Contradictions either do not matter, or they do not exist, or they may be dissolved away by dialectic. And so Mr. Laski is conscious of no difficulty when he says in one place that the many must keep their hold over the few and in another place that the Communist Party of the Soviet Union could not leave "the central principle of its faith to the chance decision of an electorate." Why not? Because by chance, the electorate might have voted no. Therefore, in order to be sure, the few had to impose that faith upon the many. Whether the few had any moral right to impose it

upon the many seems to be no question at all. The few had the power. Human behavior, he explains, adapts itself slowly to a new faith, and "this is why the Soviet citizen is constrained to the acceptance of the fundamentals of his faith."

One does not argue with a mystic. Religious rapture is privileged. So long as Mr. Laski stays in the temple, uttering revelation, he is inaccessible. Neither fact nor reason can touch him there. But he is new in the temple and somewhat uneasy. He goes walking about in the open grounds declaiming history. Indeed, he describes this book as "An essay in historical analysis." And when it comes to history, he may be judged by fact. Certainly one holding himself out to be a teacher of history who in a deliberate manner deletes, distorts or falsifies fact is thereby stultified by any moral code whatever, old or new. In all this book, which purports to be an analytical account of Soviet Russia's impact upon a capitalistic world, there is not one word about the Soviet Russia that joined Hitler when the odds were in favor of German aggression. There is a passage of irony on Mr. Churchill, who, when England was in mortal danger, could pretend to forget what he had said about the bloody hand of Bolshevism and

clasp it eagerly. But there is no mention of the fact that when the war began Soviet Russia was on Hitler's side. "To take one example only," says Mr. Laski, "it is impossible, I suggest, to doubt that the spectacle of Russian heroism in the two years of the struggle against Hitlerism has convinced the common man, all over the world, that there was a magic in the revolution of 1917 somehow adapted to his own concerns."

Deleted, missing, nonexistent, is the preceding spectacle of Soviet Russia in military partnership with Hitlerism, taking half of Poland as its share in the loot. For the common man all over the world what was there in that spectacle, somewhat adaptable to his own concerns? As he turns back to the temple Mr. Laski signs off with history in these words: "And just as the Epicurean philosophy created a sense of dismay in the traditional rulers of Rome because its appeal awakened in the masses a sense of excitement instead of their wonted torpor, created a prospect of hope, . . . so the pioneers of the Soviet Union have created almost everywhere the same sense of dismay, until the hour when their strength was sorely needed, and even when that strength was given in generous measure those who were advan-

tagged by it remained uncertain of, not seldom unhappy about, its eventual outcome."

If you took this to be history you would not know that Soviet Russia had lifted its hand against the world with Hitler. You would suppose instead that it withheld its hand until the world that had so reviled and persecuted it cried out for its strength, whereupon it did put it forth on the side of right, heroically, with incomparable generosity. You would never guess that what happened was that Hitler in a treacherous manner broke a partnership in aggression with Soviet Russia, and attacked her, whereupon Soviet Russia in self-defense was obliged to take the right side because there was no other side, and then cried out to the Christian, capitalistic world for help.

From that transvaluation of all values which Mr. Laski finds to be taking place in the Russian idea strange new values are forthcoming, but clearly the value of integrity is not one of them. Either Mr. Laski is insolently dishonest or he represents the psychopathic content of the Communist doctrine, which, after all, may be more important and more deserving of scientific study than its political and economic content. G. G.

Winds of Opinion

Do not believe that we can neutralize the inflationary power of these excess billions by going into a gigantic program of postwar production. Postwar production will create its own purchasing power. Let the national product be anything you like—\$200 billion, \$250 billion. Purchasing power in like amount will result from that production. Trying to out-produce inflation is like trying to outrun your own shadow.
—from a private letter.

It would be relatively easy to outline an ideal world of peace and prosperity.
—J. B. Condliffe.

A huge debt may so draw out the hidden powers of a people that it makes the nation wealthier rather than poorer, stronger rather than weaker.—James H. McGraw, Jr., President, McGraw-Hill Publishing Company.

It is inevitable, considering the progressive centralization of production, that the economic and political struggle should become more and more closely interwoven, the political factor continually growing in significance in the process. In the meantime the intellectual worker, due to his lack of organization, is less well protected

against arbitrariness and exploitation than a member of any other calling. An organization of intellectual workers can have the greatest significance for society as a whole by influencing public opinion through publicity and education.

—Dr. Albert Einstein.

. . . Many sincere people who constantly pay lip service to "democracy" and "freedom" seem afraid of the effects of democracy and freedom and the exercise of free economic choice by individuals after the war. The prospect that men and women after the war will once more go into the lines that promise them the biggest profits or the highest wages, and provide the goods and services for which there is the greatest public demand and at the prices that supply and demand dictate, fills these people with alarm.
—from The New York Times.

France and the occupied countries must get rid of a feeling of economic and political inferiority with regard to the United States. . . . In other words, we Europeans are not adopting the disastrous attitude of a person who has received help and who feels humiliated and defiant toward his benefactor; but let no

benefactor adopt a superior and complacent attitude, as we have seen other dominating conquerors assume. Let no one forget that in Europe the strong, clean hand of the American soldier will shake hands which are still torn and painful from Nazi wounds.

—Pierre Olivier, member of the Committee of Colonies in the Provisional French Government.

In 1919 there was a widespread feeling in many western countries that force was in itself an immoral thing: now there is a much more widespread conviction that it is only by the victors remaining both strong and united that peace can be preserved. We have, I believe, learned many salutary lessons during the last few years.
—Sir Alexander Cadogan.

Therefore I say collectivism and private enterprise must lie down together. But to say that they must work together does not prove that they can work together. Perhaps they will dissipate their energies in obstructing each other as, by and large, they have been doing both in America and in Britain these last thirty years.—Geoffrey Crowther, Editor of The Economist, London.

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Philosophy of James F. Lincoln, Industrialist

From writings, letters, speeches and testimony before Committees of the Congress, the one theme being that man is moved by incentive and crisis

FEUDALISM and slavery never lacked the ability to give full employment. Both slavery and the feudal system answered the problem of social security. The present industrial system, for the first time in history, introduced the difficulty of unemployment. We now have this decision to make. Do we want the present industrial system with its occasional problem of unemployment, which we can and will solve, or do we want to go to a form of slavery or feudalism as now offered, sugar-coated, by government? There is no doubt that government, as a feudal lord, can give continuous employment, at the price of liberty to all people—at least for a limited time.

We again have the same question to answer that our Pilgrim Fathers had. How much do we want freedom? How large a price are we willing to pay for it? The answers to these questions are going to determine the future of the United States.

We must, as Americans, determine the proper position of government in relation to our people. What is government? The servant of the people, or are the people the servants of government? That is the thing which is going to determine what kind of an industrial system we are going to have, what kind of a standard of living you're going to have, who the employer is to be, and what kind of an opportunity Americans are going to have. What is going to be the position of government relative to the individual? On that our whole future rests.

The question now is: What are you going to do about it? All people start out with the idea that they want to be free. However, few people have ever retained their freedom in competition with their own government. They lost their freedom not to other nations but to their own government. That is what's happening here. The pattern is not new.

If we win the war and lose our freedom we have made no advance over what would have occurred had we lost the war and lost our freedom.

If 20%, or 10%, or 5% of industry is operated by government, then the only eventual "out" that is possible is socializa-

tion of all industry. Private industry would have to make up the losses of governmental operations, besides paying all taxes for all activity of government. The industries owned by government would have no taxes nor any possible losses that it would have to stand. Private enterprise, obviously, cannot exist under such conditions:

Great as American industry is, it leaves largely untapped its greatest resource, the productive power, initiative and intelligence latent in every person. The prophet states it—"Thou madest him to have dominion over the works of thy hand." That conception is a far cry from the normal evaluation of man by his contemporaries. Truly, man is so made, but our industrial system does not now fully develop these abilities. There have been many who have guessed what the result would be if a large, intelligently led, enthusiastic organization should use the powers latent in all the individuals to a common end. What would happen if all were equally anxious to produce a product at the lowest possible cost? What would happen if all wanted to make the wages of all workers, from sweeper to manager, a maximum?

Management must be able to lead the organization in the direction of more efficient methods as fast as the method can be absorbed by the organization. The goal of the organization must be this—to make a better and better product to be sold at a lower and lower price. Profit cannot be the goal. Profit must be a by-product. That is a state of mind and a philosophy. Actually an organization doing this job as it can be done will make large profits which must be properly divided between user, worker and stockholder. That takes ability and character.

The job of industry is not to give employment. The job of industry—and remember this is fundamental—is to reduce the number of man hours that go into the making of any product. That is the only reason that our industrial system is great. Now, the question comes: Can industry under the free enterprise system also eliminate unemployment and still continue its great advantages? The answer we Americans give to that question will determine

what kind of an America we and our children will have.

Let's approach the employment problem from the industrial standpoint. How is employment made in industry? In the American system it's made in one way and one way only. Each unit of industry consists always of a man with an idea. All industry is the result of just exactly that—a man with an idea. He always starts from scratch and builds what he is able. That is the process which has made America great. This industrial system is possible only in the United States. Only here has there ever been that freedom of the individual which allows the occasional industrial genius to rise to any point that his ability makes possible. Only here is a Ford, an Edison, or a Kettering possible. Only here is the individual free to develop his latent abilities to the limit.

I want to tell you now about the experience which our company has had with incentives in the development of the individual's ability. This same plan, if applied by all industrialists, would make postwar employment of all a reality. We have had an incentive system for the past ten years with which we have been able to give the necessary spur for individual development. This incentive has changed our workers from people who are working at a job at so much an hour into people who feel their success is tied definitely, completely, and proportionately into the success of the company itself. This change of attitude from working so many hours a day for so much money into the desire of working to produce a certain result produces unbelievable results in efficiency of production. Ten years ago our production per man per year—that is the total sales divided by the total number of employees—amounted to approximately \$5,500 per man per year. If the price had remained constant, which is the only fair measure of production, we would have turned out last year \$68,000 worth of material per man. In other words, more than twelve times as many pieces per man. During the same period the average wages of the worker increased from \$1,300 per year to last year slightly over \$5,400. The dividends of the company, which have been continuous over the same period, increased from \$2.50 a share to \$6 a share

per year. With that tremendous increase in output, and this is the fundamental to the whole problem, the number of people employed increased from 206 to slightly over 1,000. The price of the product went down from \$550.00 to \$190.00. During this period the selling price compared to the cost of our product has remained constant. This plan has answered, therefore, the whole industrial problem; i. e., lower prices for the consumer, higher wages for the worker, higher dividends for the owner and, most important of all, continuously increased employment.

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Let us consider the effects of price reduction on employment. Obviously, price determines how much of any product is sold. Perhaps we don't recognize that completely. Let's consider it. The last year that automobiles were made without restriction 15 million of them were sold; 4 million were new cars, 11 million of them were second hand. Why did people buy second-hand cars? Certainly not because they'd rather have them than new ones. They bought them because the price was lower and for no other reason. It is perfectly obvious that had the price of new cars been as low as second-hand cars there would have been 15 million new cars sold during that year. That means much more employment. The same is true in all other industries.

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The whole problem, therefore, comes down to this. If industry can develop those abilities, if we can but make it possible for enough men with ideas to develop industries, we have solved postwar employment.

* * *

The American manufacturer and the American worker, under the conditions such as I have cited here, can meet world competition because they already have done it in some cases and can by the same plan do it in all cases. Remember this—we can sell not only to a market of 130 million American people, we can sell to a world market of 2,250,000,000. That is part of America's postwar plan.

* * *

It happens that we are the most efficient manufacturers in our particular line. We are making large profits on a product which is not particularly profitable to other people. Obviously, in order to do that it is necessary that our efficiency of production should be very high. We are producing more per man hour, four times over, than our competitors. In order to get that we have an incentive arrangement whereby the man is paid and he sees

that he is paid for this increase in production in a proportionate manner. Then in steps the formulae. I was talking to the ranking officer of the Treasury Department in Cleveland, which is the headquarters for that particular district, and he made this statement to me: "No man who works with his hands in a factory is worth \$5,000 a year." I asked him this question. I said, "Mr. Gregory, if, instead of a thousand employees, suppose we had 3,500 employees and we had paid these 3,500 employees the same amount of money that we paid the thousand employees. Would you then have questioned our statement?" He said "No." I said, "Then the only crime for which we are being fined a million 600 thousand dollars for the years 1940 and 1941 is the fact that we have released 2,500 men for the war effort."

* * *

I read you a wire which I sent the Renegotiation Board at the behest of our men: "We the members of the Advisory Board of The Lincoln Electric Company, representing 1,400 employees, have been advised that your Board is renegotiating The Lincoln Electric Company for 1942. Since many of the workers are stockholders and all share in the profits, this matter is of vital importance to all of us. Hence, we want your answer to the following question: "We are producing at more than four times the rate per man hour of any of our competitors, as you know from your investigation. How much must we reduce our efficiency and raise cost to keep from being penalized in renegotiation? Please be specific. Should it be reduced one-quarter, one-half, three-quarters, or more?"

* * *

Let's take it. If we should reduce our efficiency to that of competition we would make no money. Because we raise our efficiency, and have been able to, to unusual heights, we make a large profit. Now, then, which would you rather have us do, manufacture at the speed and at the cost of competition and make no profit, or would you rather have us manufacture at the high speed and at the high efficiency which we do have and make a profit? Which do you think would be preferable in war?

* * *

The claim has been made that \$4 billion has been saved by renegotiation. It is perfectly obvious that the amount which has actually been saved is \$4 billion less taxes. Certainly more than \$3 billion of that would have been recaptured by taxes. Therefore, the maximum saving which has been made is less than a bil-

lion dollars. Now, the point, and the thing which you are entirely overlooking, is this: that the efficiency of manufacture because of that threat has enormously increased the cost of many products. Don't forget this: of every dollar of profit at the top, 90 cents goes to the Treasury. But for every dollar of increased cost, 100 cents comes out of the Treasury.

* * *

You perhaps can measure profit, but you can't measure loss. It is not unconscionable profits that you should be worried about; it is unconscionable losses. I am talking about the loss of efficiency; I am not talking about the loss of industry. When you renegotiate a profit out of somebody you are getting 10 cents out of it, but if by doing that you increase his cost one dollar by lowering his efficiency, every single cent of that comes out of the Treasury and comes out of the taxpayers.

* * *

It is of small importance what happens to The Lincoln Electric Company. It is of national importance what happens to the incentive system. Incentive is the only known method that makes it possible for the American manufacturer to compete in world markets. It is our only hope of postwar prosperity with full employment at present wages.

The Interminable Debate

But it is now said by some that this policy must be changed. Europe is no longer separated from us by a voyage of months, but steam navigation has brought her within a few days' sail of our shores. We see more of her movements and take a deeper interest in her controversies. Although no one proposes that we should join the fraternity of potentates who have for ages lavished the blood and treasure of their subjects in maintaining "the balance of power," yet it is said that we ought to interfere between contending sovereigns and their subjects for the purpose of overthrowing the monarchies of Europe and establishing in their place republican institutions. It is alleged that we have heretofore pursued a different course from a sense of our weakness, but that now our conscious strength dictates a change of policy, and that it is consequently our duty to mingle in these contests and aid those who are struggling for liberty. This is a most seductive but dangerous appeal to the generous sympathies of freemen.—From the third annual message of President Fillmore, year 1852.

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In a Swedish Mirror

A Chilling Forecast by Professor Gunnar Myrdal

[By Professor Myrdal's permission this material is reproduced from a speech addressed to the Society of Political Economy in Stockholm. He is an eminent European authority on American affairs.—THE EDITOR]

THE SITUATION which is expected to prevail in America through 1944 I have characterized as a violent boom carried by the war production. The strange thing is that this boom is kept suspended in time in spite of the fact that the investment peak has long since passed. The principal requirements for the stability of the boom are (1) a strong inflationary pressure from underneath initiated by federal demand for all kinds of goods needed in the war effort, and (2) a severe war control from above whereby the whole production and price formation are centrally directed.

The economic postwar problem in America is what is going to happen to this business boom when (1) the federal demand in connection with the prosecution of war diminishes and afterwards entirely disappears, and when, as is generally assumed (2) the central control is replaced by free enterprise.

How will it be possible to prevent chaos once the violent inflationary pressure from underneath gives out and at the same time the balancing controls from above are pulled away?

Growth of Optimism

A couple of years ago when the controls were being worked out, the opinion among the experts and also among people generally was that one had to expect and prepare oneself for an economic crisis and large unemployment after the war. When one returns to America today, one is surprised to find a much greater optimism with regard to the business trend after the war. Americans simply and generally believe that they will manage to stabilize the war prosperity over into the postwar years and they believe that it is going to happen somehow by itself through the free interplay of economic factors. I have tried to understand and psychologically to analyze this surprising optimism and I have come to about the following conclusions. It is, in part, a very doubtful conclusion based on the success of the war production. This success is remarkable and it shows what American industrialists can make out of

technique, organization and ability to expand when unlimited purchasing power is put behind an insatiable demand. But this is not the problem of the postwar years, especially not if one wants to get back to sound finances. . . .

In America it is generally expected that the war in the Pacific will continue at least one and probably two years after an armistice in Europe. Extraordinarily enough, this is often brought out as a favorable factor. The reasons herefore are two. First, quite a number of price and production controls would then be retained for the time being. Second, the deficit balancing and the credit expansion in connection with the financing of the war expenditures will then not suddenly disappear but only decrease from \$100 billion to perhaps \$60 billion. It is rather interesting to hear these arguments advanced by people who are preeminently in favor of relaxing government controls as soon as possible, people who claim that sound finance is a necessary requisite in order that the healing forces of free enterprise may be allowed to express themselves. The idea, however, is that a slower demobilization would give the necessary breathing spell for the conversion. It is very generally admitted that if the Japanese would be smart enough to give up when Hitler is defeated—and that is, of course, always a risk—they could then cause an economic catastrophe in the United States.

It is very seldom stressed that the postwar period must be expected to start with an important loss in purchasing power. Therefore, under all circumstances one will have to expect very large reconversion unemployment even though it may later on be possible to link the trend on to an economy of full employment. It is true that the soldiers will get their bonuses and that unemployment benefits will generally be high. But in spite of all this, the unemployment in connection with reconversion will mean a cut in income at least over a short period.

Shrinking Payrolls

Furthermore, it is in the war industries that the wages have been especially high. For this reason the reduction in war production will mean a very considerable lowering of the average wage level. The return to normal work hours will furthermore cause a more than proportional re-

duction in income inasmuch as overtime is paid at 150% to 200% of going wage rates. It is true that people have saved a lot during the war and that part of these savings have stayed with the workers. But the immediate effect of a reduction in wages will not represent a net addition in purchasing power, however much one may try to juggle with the deferred demand and the individual savings that will be brought into play after the war.

It is also somewhat alarming that the discussion on this entire problem of the business cycle among economists generally limits itself to the total picture. In America, one tries to overlook that one will be faced after the war with depressed areas similar to the ones England got after the last war, only tremendously enlarged. When the production of planes and ships is reduced to a fraction of its present volume, certain regions in California, Oregon and Washington must be hit very hard. It is not inconceivable that every second worker will become unemployed in a state like California, which, by the way, is about comparable to Sweden both as to size and population. But the West coast might get a short respite if the war against Japan should continue after the war in Europe is over, and this would give a relatively increased importance to that part of the country. More immediately the Southern states will be hit by mass unemployment. Many ammunition factories and other establishments have been located there and it will be hard to find any peacetime use for them. On the coast down toward the Gulf of Mexico there are also large shipyards. The overpopulation and the poverty in surrounding agricultural districts will make the situation worse. There are also other industrial districts spread out over New England and the Middle West which will be hard hit at the liquidation of the war industries. . . .

Inertia of Labor

A tremendous problem will present itself to American economic and social policies in getting labor transferred quickly between industries and geographic regions in order to obtain a new equilibrium. In the old, I almost said good, times when the American economy was expanding rapidly, America had an unusually large transient labor. In conversations and also in public discussions one finds that many Americans without much thought imagine that it will be possible to revive this tradition after the war. Quite a few things, however, have happened since the time of expansive free enterprise and mass migration in America, and not the least in the labor market.

One of the most disquieting signs is the refusal to face this labor migration problem clearly and to take such measures as would solve it. Even should America get a good general period of prosperity, something which I do not personally believe will happen, it will be very difficult to move labor out of unemployment districts. Many who have moved out to the paradise-like West coast will want to stay there even if employment decreases.

Benefits this Time

The whole nation is, as I have already pointed out, expecting very high unemployment benefits this time. High benefits may be right and desirable from a social point of view and they are also a big help in supporting purchasing power and prosperity, but they certainly do not tend to increase the flexibility of labor, and we know from the stagnation of the Thirties what inertia labor in America can possess.

This problem will be the more serious in its implications in view of the certainty that relations between the various parties in the labor market will be very difficult after the war. The employers are generally in favor of wage-rate reductions and they can state in their defense that the price level on their products has not risen as much as wages; the large corporation profits are chiefly a result of a more complete utilization of capacity. The workers, on the other hand, who, with a few single outstanding exceptions, have loyally kept to the no-strike agreement for the duration and who have largely adjusted themselves to the wage-freezing policy, will feel that they have a right to compensation after the war. Already the union leaders have had great trouble to keep their members back. The fact that, after a period of full employment during the war prosperity, they now have managed to save some money will not make them less belligerent. When we take into account the general unrest that will result during reconversion, the mass employment in the special war production districts, and most likely a very confused political situation in the country, the result in many instances may be a more radical labor attitude and real battles on the labor front. . . .

These unspoken problems are hovering like shadows over the economic future in America and they add to this queer atmosphere of unreality and illusions. There are quite a few other postwar headaches.

The most difficult demobilization problem, however, is what is going to be done with the government-owned plants. These plant facilities are managed by private concerns, but in order to get war produc-

tion quickly and effectively started, the government, to a large extent, advanced the money for the building of these plants and the purchase of machinery. The government retained property rights to these plants. A tremendous amount of money is involved. Of all those factories that were constructed during the war and which are estimated to have cost \$20 billion, the government now owns three-fourths, or an investment capital of \$15 billion. The problem is how to make a postwar use of these tremendous industrial facilities of which the American government has become the owner. In important fields, the government-owned industries actually dominate. The government thus controls 100% of the American production of synthetic rubber and of high-octane gasoline, 92% of the magnesium production, 90% of the airplane factories, 50% of the aluminum production, 50% of the production of tools and also 10% of the steel production.

The War Plant

These factories are not of low quality, but are instead very solidly built and modernly equipped. One-fourth of them will hardly be used after the war but will have to be preserved in preparation for the next war. But the rest of these factories can be either directly applied to peace production or reconverted. As, however, war needs have been entirely dominant, these factories are not always conveniently located from the point of view of peace production.

What is America now going to do with its socialized section of industry? There is no political support whatsoever in America for a change-over into government industrial activity or for mixed management of the type that we have tried so successfully here in Sweden. The obvious solution in America is that industry should be allowed to take over these plants, but there will then be a question of the purchase price. In most cases those companies which have been managing these plants have acquired an option to buy them at a price computed on investment cost less a certain yearly write-down. Industry has already let it be known that it generally does not see itself able to pay as much as all that and it stresses that building costs were abnormally high in the very hectic time when these plants were erected, that they are not always ideally located, and that they will have to be rebuilt in order to suit peace production of other products, etc., etc.

If the government should follow the practical line and sell these plants cheaply, the radicals would not be the only

ones to revolt, but also the agricultural interests, including probably the reactionary southern plantation owners, and small business. If, on the other hand, the government should stick to its prices, then the factories would remain unsold. In this unavoidable dilemma, there are many who have proposed that in order that production should not be stopped these factories should be leased to private companies. But this is also, of course, not a satisfactory solution.

This situation is tremendously complicated by the seldom-stressed fact that the only real counterpart to government is the giant corporation, and there will hardly be any competition on the other side of the mediation board. Here it is also a question of plant facilities of immense size. Of the government-financed facilities, more than \$15 billion worth, or 12.5%, represent units of \$100 million each or more; 30% represent units of \$50 million and more each. Only 4% of the total investment is represented by what one in America would call small plants, each with a value of less than \$1 million. One often hears in America that small business ought to be favored when the government-owned plants are disposed of, which is, of course, pure illusionary thinking. No small businesses can take over and run these tremendous industrial plants.

Forecast

It seems likely that America after the termination of the European war will have a very restless economic development. There will be scarcities in certain areas and overcapacity within other productions. Price developments will be uncertain and the total price structure will probably be very heterogeneous. There will undoubtedly be mass unemployment within large regions. Severe conflicts in the labor market do not seem impossible. It is, however, possible that there will be a relatively widespread sellers' market preventing an immediate, general depression. It is likely that within a period of, let us say, from one-half to three years, the trend will change into a crisis. In the sphere of agriculture it is to be expected that a continued scarcity of most agricultural products, with a consequent preservation of high prices, will prevail for perhaps a couple of years after the end of the European war. But from then on a crisis of overproduction will threaten. Such an agricultural overproduction might become much severer if developed simultaneously with a tendency toward industrial depression.

Stockholm, Sweden, March 9, 1944

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The Moral and Economic Evils of Collective Bargaining

By John W. Scoville

Mr. Scoville is an economist, formerly vice president and now fellow of the American Statistical Association, teacher and educator. He dropped this bomb at a meeting of the Kiwanis Club in Detroit.

LET me sketch briefly the principles held by those who believe in economic freedom. They believe that individuals and individual firms should be free to determine what they will produce, how much they produce, from whom they will buy and to whom they will sell. They believe in competition. They are opposed to monopolies. There should be in each industry a number of independent producers. Prices are determined in free markets. Buyers try to get lower prices and sellers try to get higher prices. Each individual is free to choose his occupation, to make as much money as he can, to own what he produces and to store it, sell it, consume it or give it away. There must be no cartels, trade associations, cooperatives, monopolies, labor unions, or guilds or other combinations to restrain trade or limit competition. There must be no laws to fix prices, set quotas, ration goods—no government interference. The government settles disputes, makes people keep their contracts, preserves order, protects property and prevents fraud. But the government does not interfere with trade. The key words in this theory of society are freedom, individualism and competition. This type of social organization is sometimes called free enterprise, private enterprise, the American way of life, etc. . . .

Get a Law

Now the other school of thought does not believe in the freedom of the individual. They believe it is all right for individuals to form groups and to use the massed power of the combination to advance the economic interests of the members, at the expense of the rest of society. These groups usually try to get a law passed so that the government will make their monopoly more effective. And so the walnut growers have a combination to increase the price of walnuts; the beet sugar growers get a tariff to increase the price of sugar. Nearly fifty years ago many trusts were organized, the paper

trust, the cordage trust, the steel trust, etc. The Canadian farmers organize a wheat pool, the Brazilians organize a coffee monopoly, the English and Dutch rubber interests institute the Stevenson restriction scheme, automobile dealers get state licensing laws, the Russians have Amtorg to monopolize foreign trade, the dairy farmers secure a heavy tax on oleo, the cattlemen get a law to prohibit the importation of Argentine beef, the druggists get the Miller-Tydings law so they can fix retail prices, independent grocers get a law to tax the chain stores, the government fines a farmer forty-nine cents a bushel if he raises too much wheat, the NRA was enacted to make the President a fascist dictator, the Wagner act is passed to help labor unions establish labor monopolies, city ordinances are passed to help the rackets in the construction industry, advertising agencies form a conspiracy with the publishers, regimentation, regulation, and rackets without end!

Not Labor Only

Now the point I wish to make is that the labor problem is just one part of a much larger problem. If you believe in economic freedom and competition, then you will be opposed to collective bargaining. If you believe in private and public monopolies, if you are opposed to free enterprise and competition, then you will probably favor collective bargaining. I do not know where you stand, but I know where I stand. I am opposed to all farmers, merchants, manufacturers, laborers, and others who seek by group action to limit competition and restrain trade. I am opposed to monopoly and monopolists. I am one hundred per cent in favor of economic freedom.

There are many names by which we can identify the people who are opposed to economic freedom. They are called socialists, communists, collectivists, fascists, national planners, New Dealers, progressives, liberals, frontier thinkers, interventionists, restrictionists, socially minded—but by whatever name they are called, they have one thing in common: they are all enemies of liberty. So while I condemn collective bargaining as an assault on liberty, as an evil thing which is against the public interest, as something which will increase

poverty, I realize that collective bargaining is only one chick in the foul brood of vultures that seek to pick the meat from the bones of honest men.

There are two kinds of collectivism. There is a legitimate collectivism which benefits the members without injuring others. For example, if the merchants in a city form a credit association so that each merchant can use the files of the association, this group action is harmless. This collective action reduces the cost of getting credit information without injuring anyone. But there is a malignant kind of collective action which seeks to benefit the members by injuring others. The collective bargaining of the labor unions is a scheme for benefiting the members by inflicting injury on others. Protective tariffs and farmer schemes for parity prices are of this malignant type. If by collective bargaining the members of the union secure higher wages, others must get lower wages or lower income. The increases in wages come from consumers who pay higher prices, or from stockholders who receive lower dividends.

Now all predatory combinations seek to appease their victims by claiming that their members are being treated unfairly and that they have combined to secure justice and a redress of grievances and also by claiming that they are not wholly selfish and that their program will promote the general welfare. Thus manufacturers say they want protective tariffs so they will be able to pay higher wages—that they seek to protect our workers from the pauper labor of Europe. Farmers say that if they can get higher prices they can buy more city-made goods. Labor union members claim that if they can get higher wages they can buy more produce of the farms. Labor unions claim that workers do not get wages enough to buy back the products of industry and they claim that with higher wages they can buy more and promote business activity.

Add Nothing and Nothing

But how can five dollars added to a workman's wages enable him to buy more if the same five dollars is added to the price of the goods he buys? If higher wages are at the expense of stockholders, then the increased buying of the labor union members is offset by a decrease in the buying of the stockholders. If a rise in farm prices enables farmers to buy more, the higher food prices compel city people to buy less. All of the arguments advanced by predatory combinations that they are working for the general welfare are hypocritical and false. Let us recognize that the motives of the predatory

combinations are selfishness and avarice. They are economic aggressors, seeking to enrich themselves by plundering others.

Nor is there any logic in the claim that the predatory combination is necessary to secure fair wages or fair prices. Fair prices are what the public will pay in free markets. In a free society, exploitation is impossible. If too little wheat is raised, the price of wheat will rise. Some farmers will then grow more wheat—then the price of wheat will fall again. If some store in Detroit charges too high prices, customers will trade elsewhere and the store will be compelled to reduce prices or go out of business. It is only the free market that establishes fair prices. Predatory combinations and arbitrary laws can be depended upon to produce *unfair prices*. Fair wages are wages that are *just high enough* to attract the required number of employees of the desired quality. No labor unions are required to secure fair wage rates. The main purpose of the labor union is to secure a wage above the rate which would result from competition; that is, the purpose of the labor union is to secure a wage which is *unfair*. The purpose of the labor union is *exploitation*.

Correct in Theory

I believe the A.F. of L. had a correct theory of exploitation. If they organized only skilled craftsmen, say four million of them, then these four million could get high wages and still buy cheap goods produced by the unorganized forty million. If there are only a few wolves and a large flock of sheep, then the wolves can be well fed. But if all workers are organized and if they all secure high wages, then the labor unions would be useless, for there would be no one left to exploit. The larger the number of workers who belong to labor unions, the less will be the benefits that the unions can bring them. . . .

Now you may ask, if it is proper for the individual farmer, merchant, manufacturer, or laborer to strive for more income, higher profits and higher wages, why isn't it proper for all people in the same occupations to combine to secure more income? Why is it wrong for a group to do what is proper for an individual to do? That is a fair question. In a free society, the avarice of one person is restrained by the competition of the others. If one store in Detroit charges too high prices, this store will lose trade, for the customers have choices, and they will choose to patronize the store with the lowest prices. But if all Detroit stores formed a union, and all charged high prices, the customers would have no choices and would have to submit to the exploitation. In a free

society, competition keeps everyone in line—each one is restrained by his competitors. If doctors earn more than lawyers, then college students will study medicine rather than law, and this will lower the income of doctors and raise the income of lawyers. If factory workers earn more than farmers, then farm boys will leave the farms and come to the cities—and this migration will tend to equalize the incomes. The free society is self-regulating. But the formation of monopolies leaves people without any choices, and destroys the regulatory mechanism of competition. Monopoly results in arbitrary prices, so that some people receive too much and others receive too little. Competition is fair and produces substantial justice. Monopolies are unfair and promote injustice.

A great many people feel that collective bargaining is all right in principle and that what is needed is better men as labor leaders and union officials. Many industrialists will say, "Of course we believe in collective bargaining," or "We recognize that collective bargaining is here to stay," or "The employers in the past were not fair to labor," etc. These views are incorrect. Collective bargaining, like all other monopolistic practices, is wrong in principle. About 1800, the English law condemned combinations, both of employers and employees. These combinations were rightly called conspiracies. But about 1824, the English law against the combination of laborers was repealed. I believe the English lived under the shadow of the French Revolution and were afraid of revolution breaking out in England. You will hear people say that the Wagner act gave certain rights to labor. This is incorrect.

Analysis

An agency for promoting private enterprise published a letter recently from which I quote:

"The National Labor Relations Act must be so rewritten that the rights and duties of employer and wage earner in relation to each other and to the public are clearly defined. Individuals and minorities among wage earners, whether union or nonunion, must be protected against majorities. The *right of collective bargaining must at all times be maintained*. But every worker must have the right, free from coercion from any source, to join or refrain from joining a union."

Let us analyze this alleged *right of collective bargaining*.

Confining our discussion to civil rights, all rights are creations of the law. All human acts fall in two categories.

1. Acts of which the law takes no notice;
2. Acts commanded or forbidden by law.

In the first category we are free to act; we have the right to act as we will. In the second category we have no right to disobey the command and no right to do what is forbidden.

A man has the right to marry. This *right* is in the first category; the law neither forbids nor commands. A young man asks ten maidens to marry him, and each maiden says no. So he goes to the legislature and says that women are denying him the right to marry. So the legislature passes a law which prohibits any woman from interfering with the right of a man to marry.

Armed with this law, the man goes to his favorite woman and demands that she marry him. If she refuses, the man goes to a National Marriage Relations Board who decides that the woman is engaged in an unfair marriage practice and that she cannot interfere with the man's right to marry. The board draws up a marriage agreement or contract and compels the woman to sign it.

Analogy

In this hypothetical case, we may observe:

1. The law took from the woman the right to decide whom she would marry or whether she should marry at all.
2. Before the law was passed, the right to marry meant that the man had a right to marry *if he could find a woman to marry him*.
3. After the law was passed the right to marry meant something else, namely, the *right to compel a woman to marry him*.
4. The marriage contract signed by the woman was signed under duress, and was therefore not a contract at all, but a legal mandate.

The analogy between this case and the Wagner act is clear. Employees always had the right to engage in collective bargaining, if they could find a willing employer; that is, the law did not interfere. The Wagner act conferred no rights on employees. But it took away from the employer the right not to deal with a particular labor union or with any union. Under the Wagner act, most labor agreements or contracts are signed by employers who are under duress—and hence are not really contracts.

The discussions between the employer and the labor union should not be called *bargaining*, for it is of the essence of bargaining that both parties are acting voluntarily. Would discussions between a highwayman and his victim be described as *bargaining*? In genuine bargaining each party makes offers. But labor unions, like bank robbers, make *d demands*. Those who make *d demands* have the power and the will to use *force*. The labor union threat-

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Agriculture

What Is Free Agriculture?

IN THE supplemental Republican party platform written by the governors in St. Louis is this paragraph:

"Because of the universal extent, the basic necessity, the hazard and the nature of agriculture, there is a federal responsibility to assure it economic stability and equality with labor and business. Federal responsibility should be directed to such economic stability through disposition of surpluses, assurance of fair market prices, research and broad general services to agriculture as a whole."

Then it adds: "Abundant production, necessary to national prosperity, can only be attained under a free agriculture."

In order to guarantee agriculture (1) economic stability, (2) economic equality with business and labor, (3) fair prices, and (4) freedom from the consequences of surplus, will it not be necessary for the government to control and administer agriculture? Is an agriculture controlled and administered by the government a free agriculture?

The National Farmers' Union, for one, has lost interest in that question. Its program, already presented to the government, contains these proposals:

"1. Authorize the writing of an annual agreement between the Government and the individual farmer that will spell out exactly what crops the farmer is to raise, what volume will be his objective, what he will spend and practice on conservation, and in return what he will receive in farm income, technical assistance, and credit for the year, this minimum income to be underwritten by the Government.

"2. Force the payment of support prices to farmers through (a) the withholding of subsidy payments to processors or middlemen, (b) the lowering of price ceilings of those processors or middlemen who decline to cooperate and (c) provision of heavy fines for those who disregard the support price pledge of the Government."

News of the AAA

The Hon. Harry P. Jeffery of Ohio presented to the House of Representatives the following statement signed by sixty-two Ohio farmers.

"We, the undersigned farmers in Clay and Perry Townships, Montgomery County, Ohio, hereby state that we have had the following experience with the AAA in this district:

"1. We have been advised by agents of the local office that unless we signed up for the

ens to strike if its demands are not met, thus inflicting a loss on the employer. The labor unions expect the higher wages in the future will exceed the present losses due to the strike. But the employer is faced with two losses—the loss due to the strike, or the loss which will come from meeting the demands.

Distribution by Force

The Wagner act gives employees the power to inflict certain and indeterminate losses on employers, with the consent and assistance of the Federal Government. It substitutes *force* for *competition* as the mechanism for distributing the social product.

We should never refer to the Wagner act as a law which confers upon workers the right of collective bargaining, but as a law which denies to employers the right to enter into voluntary agreements with their employees.

The sentence which we quoted from the letter should be amended to read as follows: "The right of an employer to bargain freely with his employees should never be granted."

The Wagner act gives no rights to labor, except the right to inflict a loss on the employer. The essence of the Wagner act is that it denies to employers the right to bargain with employees.

The defenders of economic freedom should avoid using the words and phrases coined by the enemy. These phrases are designed to conceal, not to reveal, the facts. Deceptive language is the dress which enables many errors to masquerade as truth.

Union for Profit

Our national policy as expressed in the Sherman act and the Clayton act is in favor of competition and against monopolies. But the Sherman act and Clayton act do not apply to labor or farmers' unions not run for profit. Did you ever hear of a labor union that was not run for profit? The politicians have always been afraid of the farm vote and the labor vote.

Our Federal Government is in the awkward and inconsistent position of prosecuting industrial combinations and encouraging labor combinations. Worse still, the government compels workmen to join unions or lose their jobs. Congress has no constitutional authority for enacting labor legislation.

In order to clothe the usurpation with a thin veil of apparent constitutionality, Congress declared that the purpose of the Wagner act was to relieve interstate com-

merce of the burdens due to strikes and industrial strife. This attempt of Congress to encourage unionization began with the National Industrial Recovery Act of 1933. In the first New Deal year the number of strikes more than doubled and reached the highest level in twelve years. In 1937, the number of strikes reached an all-time high, and our estimate for 1944, based on the first five months, is still higher. The federal labor laws, instead of relieving commerce of the burden due to strikes, trebled this burden. Since we have taken the medicine prescribed by Dr. New Deal for twelve years, and since the disease which the medicine was to cure has become progressively worse, should we not discontinue the quack remedy and repeal the Wagner act? . . .

Bad Thinking

There is a tendency to think that the evils in labor unions are due to turbulent and crooked officials. That is unsound thinking. We must concentrate on principles, not on personalities. I believe that most union members and most of the officials are decent and honest persons. Many of the southern slave owners were good people who believed that slavery was a good institution. Religious fanatics who burned heretics at the stake probably thought they were doing right. Many ardent unionists have not the educational opportunities or the capacity to dig down to the roots of the problem and come to correct conclusions. It is difficult for anyone to condemn a system which gives him a livelihood or apparent economic benefits. Laborers have the right to organize. Any group has the right to organize. There are many useful and legitimate functions for a labor organization. But no group has the right to organize to injure other people.

Some years ago, the American people voted to abolish the sale of liquor. But this curtailment of liberty was wrong and as the years went by the abuses and evils of prohibition were more and more apparent. Public sentiment changed and the prohibition amendment was repealed. It is probable that public sentiment will change in regard to collective bargaining. As industrial turmoil increases, more and more people will see the evils generated by collective bargaining, and we should look forward to the time when all federal labor laws will be repealed. Millions of workers may then be freed from economic slavery and enjoy the exhilaration that comes from the knowledge that they are once more free men, able to advance according to their industry, intelligence and skill.

AAA we would not receive a farmer's allotment for gasoline for farm purposes.

"2. We have been advised that unless we signed up for the AAA we would not be granted deferments for military service for our sons and employees as farmers.

"3. We have been advised that unless we signed up for the AAA we would not be granted priorities for farm machinery needed by us to get the maximum production from our farms.

"We believe, therefore, that the AAA has been a serious detriment to maximum production on the farms in this locality and that it has created a feeling of apprehension and disloyalty and we are anxious to do all we can for our country, but are unable to do so because of this impediment."

The Price of Benefit

(From a debate in the House of Representatives on continuing appropriations for the Farm Security Administration.)

MR. MURRAY of Wisconsin. I do think it should appear in the *Record* that though some of this money has not been too well spent, which nearly everyone will agree with me on, yet the rural people did receive, in many cases, much benefit from the money that was spent in a correct manner, and at the same time that these few dollars were being spent for these rural people, our city cousins were building homes costing on the average from \$4,900 to \$6,900.

MR. COOLEY. I think the gentleman is entirely correct. Although much money has been wasted by the agency, I think that the farm people have received some benefit from it.

MR. SHORT. Can the gentleman inform the House what percentage of these loans have been repaid?

MR. VOORHIS of California. I have figures on that. The over-all payments for the United States as a whole on the production loans or the rehabilitation loans are 86.7%.

MR. COOLEY. I know that every member of the committee has opposed the Federal Government's going into the land business. This agency, in many instances, without any authority of law has acquired and has control of approximately 2,000,000 acres of farm land in America.

MR. TABER. I do not believe we ought to go on with the Farm Security Administration at all. I believe it ought to be immediately liquidated. The amendment offered by the gentleman from Georgia presents this picture: \$67,500,000 for new loans, so-called rehabilitation loans, and \$26,000,000 for expenses. This means ad-

ministrative expenses totaling 39%. The setup this year is \$67,500,000, with \$30,786,000, or 45%, for expenses. That is the kind of picture it presents, to loan \$67,500,000 with \$26,000,000 of expense.

Someone asked about the amount of loans that had been repaid. The total loans as of December 31 last were \$809,000,000. The repayments were \$443,000,000. The 86% comes in this way, that 86% of the amount of the matured principal has been repaid, but the way that has been brought about, as appears from all sorts of investigations, is that they have made new loans to the borrowers to cover these maturities. That is the way they keep the percentages of collections up.

—from the Congressional Record.

An Iowa Farmer in Great Britain

In the first place, a very rough comparison of Britain and Iowa. Its agriculture is somewhere near the size of Iowa's. We have, in fact, a few million more tilled acres in the state than there are in the whole of the United Kingdom. They, on the other hand, have a more intensive agriculture, and especially have more cattle and more dairying. It is quite probable that total feed units in Iowa are higher. It even seems probable that the total human food produced is higher. The significance of eleven million acres of corn and a couple of million acres of soya-beans in this respect is hard to overcome. The labor force of Britain in agriculture is approximately three times that of Iowa, but this single fact might easily lead to a false impression with regard to the efficiency of British agriculture. A considerable part of it is a result of the intensive aspect of different crops such as mangolds and swede turnips and potatoes and vegetables and sugar beet, things which require a very great deal of labor. Further, it is the sort of labor which it is difficult or impossible to replace by machinery.

A considerable portion of the total farm work is done by employed labor. This makes wages of particular interest, and it is also of interest that minimum wages in Scotland are not the same as in the rest of the United Kingdom. On a very good farm in Scotland, these wages were actually being paid at the time I visited the farm: ordinary men, thirteen dollars per week; horsemen, \$13.50 per week (the Scots think a great deal of their horses); greaves, that is bailiffs or farm managers,

\$15.20 per week; shepherds, \$15.20 per week (their sheep are another thing they think a great deal of in this particular country).

The minimum wage scale in England is slightly higher than in Scotland. On most farms wages are a little above the minimum which is required to be paid. A great many men are drawing in the neighborhood of \$15 per week. The highest priced man whom I have discovered here was a bailiff, that is, a farm manager who is responsible for operations on one of a certain farmer's four farms, and who received \$22 per week and a bonus dependent upon farm profits.

On the matter of prices, there is a very mixed situation. The greatest portion of agricultural production is bought and distributed at fixed prices under strict government control. On the whole, prices are such that farming is profitable. In fact, no one worries much about prices.

There is one notable exception to this uniform price thing. The prices of full-blood livestock are out of sight. I find in my notes that sixty head of Ayrshire cows, the total number sold at a recent sale, averaged \$2,220 each.

It is also worth noting that the price of land is rising dramatically.

—Allen Kime of Iowa, writing in *The Outpost*, published by Americans in Great Britain.

Eggs from Eggs

MR. HOFFMAN. Over the past year or more the farmers were asked to, and they did, produce more and more eggs. In one little town in my district they were asked to store 3 additional carloads of eggs. They already had 41 carloads in that small town, and they had to use a big canning plant to store those.

MR. RABAUT. What does the gentleman want to do—keep them and reduce the price to 5 cents a dozen?

MR. HOFFMAN. I will tell the gentleman what I would do. I would not attempt to tell the farmers how to run their business; I would not interfere with the way the farmers cultivated their land or what they should grow. According to Mr. Jones, who had a seat in the House, now Food Administrator, they are taking those eggs and they are grinding them to make hog and poultry feed. They get the hens to lay the eggs and then grind them up to feed the hens to get more eggs.

—from the Congressional Record.

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Talking at the Bench Level

From a speech by Frederick C. Crawford,
President of Thompson Products, Inc.

I HAVE reached two or three general conclusions from the answers to our questionnaire. Replies, such as I have just quoted, confirm my belief that the human side of labor relations is the key to this whole problem, not cold, hard, material things.

Perhaps our neglect of this human factor has been the greatest failure of American industry for a generation. We think in dollars, in hours, and in pieces produced, and these aren't the terms in which the American people are thinking today. They are thinking in terms of human values.

Every answer of the survey indicated that the employees are hungry for information about the company's business. When we asked, "What do you want in the plant paper?" the most frequent answer was "More facts about the company's business." How can we explain to our men the way industry works so that they will understand? It must be done with simple parables, and with sincere earnestness. First of all, we must remove the bugaboos that are in the workers' minds, through misunderstandings.

The American worker doesn't know that the source of a wage raise, of lower prices, of more capital, and of greater prosperity lies in increased production from human labor—more pieces produced in an hour of work. That is the whole secret of successful manufacturing. Our workers sell hours, but our customers don't care about hours, they are concerned about price and quality. A man sells us eight hours of his time, but our customers don't care whether our employee works all night or makes the piece in five minutes. Whenever we sell that fact to the American worker, and convince him that it is the key to the secret of increasing the general wealth from which come wage raises, the bargains that bring bigger markets and more orders, more invested capital and a higher standard of living, we will really make progress.

My last two conclusions, however, are somewhat disturbing. In the first place, there was no indication from the survey that the average American worker has any knowledge of the underlying principles of business—how capital is formed to create jobs, how incentive of profit drives management on to produce and grow, and to raise the standard of living. There was little evidence that the worker understands the relationship between the way he does

his job and performs his duty, and the success of his company, and his own earnings.

Secondly, I did not find a single answer that disclosed any interest on the part of the worker in the political setup of the postwar world, or any understanding of its relation to his personal fortunes. There seems to be no concern about the government regulations that determine how business and industry can function. Yet taxes have more to do with a worker's job than the president of the company. Security laws have more to do with postwar employment than the engineering department. Labor policies have far more to do with jobs than the superintendent of the plant. Bureaucratic control in government has more to do with the worker's wages than the management of the company with which he is connected.

A basic understanding of the American system seems completely lacking with the workers in industry, and yet they compose one-fourth of our population, and the public will set the rules for the operation of American business, in the future. These men fail to relate the jobs they want to their responsibility, as citizens, to see that their government gives industry a clear field in which to play the economic game, and fair rules under which to create a better America.

Thus far management hasn't done any too well, in its public and employee relations. Something has been wrong. Why don't the folks in our communities, and our own workers, understand more about government, and more about free enterprise? We are not so smart, after all. We can sell any worthwhile product to the American people, but we haven't sold the simple truths that are fundamental to our economic stability.

Management has all the advantages—our workers are with us eight hours a day for five or six days a week, while the crackpot theorist gets them on the radio for ten minutes at night. It's a sales job, and we have the money and the means to do it. The worker and his family, and the other citizens in our local communities, are our customers to whom we must sell these basic American ideas. The socialist, or the dishonest leader who works on them, is just another salesman competing with us. Our efforts must be sincere, patient and truthful—not biased propaganda. . . .

Sometimes by stories we can illustrate this to the worker and rid his mind of the

idea that to produce less somehow benefits him. If we could only get him to see that he holds the magic wand that floods the company with orders because of lower prices and makes possible greater profits and higher wages and that he waves it by simply producing more pieces per hour!

We must help the worker to understand also the questions of ownership and income. A man doesn't need to own a cow in order to drink milk, nor to own a railroad in order to ride on a train. Our plant paid out a hundred million dollars in wages in ten years, and it was never worth that amount in all that time. Every year American industry pays more in wages than the whole business is worth.

Industrial income in America is fairly divided. A knowledge of this fact is the greatest potential factor in better labor relations. Nearly 90% of industry's available dollar goes to those who work and less than 10% to capital. When they understand it, most workers say that isn't fair—capital should have a better break.

What about executive salaries? The net income of the highest paid boss, after tax deductions, is the equivalent of what ten workers have left after they too have paid their taxes. It is about equal to that of ten "no speaka de English" laborers. When the comparison is made and presented that way, I never saw a worker who didn't think that was one of the most unfair things in industry. The workers say that the boss is worth 150 laborers, and thus they appraise his salary at about \$400,000 a year.

Invasion Money

The American troops taking part in the invasion have taken with them franc notes printed in the United States for the military authorities. These notes have the tricolor flag prominently printed on them. The responsibility for their ultimate redemption has not yet been defined. The British troops have been supplied with some of the old Bank of France notes that were brought to this country at the time of the Dunkirk evacuation. As the stocks of these notes are inadequate, the balance of currency required is being made good from the tricolor notes printed in the United States. It has been reported that some 80,000 million francs of these notes have been printed, a figure which compares with the current Bank of France circulation of around 500,000 million francs. The addition of these tricolor notes to the circulation could, therefore, introduce a new and serious inflationary element in the position. —The Economist, London.

The Spectacular Entry of Cooperatives into Production

The *Monthly Labor Review*, published by the United States Department of Labor, takes a deep interest in the signs and fortunes of the cooperative movement. It speaks of the "spectacular expansion by cooperatives into production" as the overshadowing development of the last year, and says: "Much greater attention was paid to publicizing the cooperative movement than in any previous year, which was shown by several attacks upon the movement which resulted in gaining it greater public notice."

From whence the attacks came or on what arguments they were based it does not say, only leaving it to be inferred that whatever they were they did more good than harm.

To those who venture their own capital in trade and enterprise, for profit, especially the small trader and the little enterpriser, this movement by the cooperatives into production begins to be alarming. It is not the competition that they complain of. They think it is unfair competition. And they think it is unfair mainly for two reasons: first, that cooperatives as non-profit associations are partly exempt from federal taxation and subject only to nominal state taxation; and second, that they have privileged access to public money at very low rates of interest.

These are grounds enough for grievance. But the attack does not stop there. It goes on to say that the cooperative movement is socialistic in principle and hostile to the tradition of free private enterprise. Criticism of that character may be somewhat explained as a reaction to a kind of zealotry that increasingly appears in the cooperative evangel. The enthusiast seems sometimes to be talking not of a form of mutual activity which must find its place in the competitive scheme but about a social system.

What is probably the most forthright attack that has yet been made upon the political implications of the movement comes from the Associated Industries of Oklahoma, in a letter to the membership, calling attention to the prospectus of a "proposed regional cooperative to serve nine southern states."

The letter says of this proposal:

"It strikes at the very roots of our private enterprise system and it is certainly another step towards state socialism. Please note that in addition to manufacturing, selling, warehousing, etc., it is proposed to set up life insurance, fire insurance, and livestock insurance cooperatives. Please carefully note that it is proposed to get the money from RFC at 1% per annum over a 40-year period. While this prospectus is silent as to administrative costs, including taxes, attention is directed to the fact that the Federal Cooperative Act eliminates such cooperatives from federal taxation; moreover, these cooperatives are very busily engaged within their respective states in substituting for the normal schedules of taxation a franchise tax or gross receipts tax in lieu of all other taxation, which again means industry and the remaining taxpayers must absorb that shrinkage by higher taxes levied against the remaining property. One of the most far reaching and subtle encroachments on the American way of life is contained in the paragraph under the caption of 'Educational Program.' Please read carefully the suggestion that a 'course of study be initiated in the public schools system for the purpose of giving basic training in all phases of cooperative economy.' Then as the final shot it is recommended that a National Cooperative Service Bureau be set up in Washington at the national level."

This letter to the membership of the Associated Industries of Oklahoma is accompanied by two exhibits. The first is a letter from the National Council of Farmer Cooperatives to all council directors as follows:

"Attached is copy of plan for a proposed regional agricultural cooperative holding, financing, and management organization to serve nine southern states—headquarters in Memphis, and office in Washington, D. C.

"This plan was formulated by a committee headed by A. D. Stewart, Regional Director of Farm Security Administration office, Little Rock, Arkansas. You will notice that it proposes the establishing of an association, known as Southern Consolidated Cooperatives, Inc., financed by funds borrowed from the Reconstruction Finance Corporation at 1% interest, for the purpose of engaging in almost every kind of enterprise imaginable—ranging from marketing and the purchasing of farm supplies to the manufacturing of such items as household furnishings, clothing, hardware, and tombstones.

"We are calling this proposal to your attention because we believe it is of real concern to all persons interested in farmer cooperatives. We urge that you read it carefully.

(Signed) John H. Davis
Executive Secretary"

The second exhibit is the proposal for the formation of the "Southern Consolidated Cooperatives, Inc., and other cooperatives as a means to promote postwar

agricultural developments in the southern states."

The idea is outlined as follows:

"In order to prevent the farms from becoming the 'dumping grounds' for unemployed people during the postwar period and in order to provide new sources or supplemental sources of income for the farm population, it is proposed that cooperative industries be established to absorb the surplus labor as well as to bring about a fundamental readjustment of the agricultural economy of the South. Through the establishment of industries, inefficient use of labor on over-populated and submarginal farms would be prevented and an employment balance between agriculture and industry would be maintained.

"It is deemed that the major changes from an agricultural economy to an agricultural-industrial setup will have to be so rapid that a large amount of the conversion will have to be made by the people themselves through cooperative efforts, since private enterprise is not in a position to effect the rapid change that will be necessary."

Forty kinds of manufacturing and processing are listed as feasible.

The aid of private enterprise is not excluded, but it should be encouraged only "when to the best advantage." Southern Cooperatives, Inc., the prospectus continues, "should be incorporated under the law that would give it the broadest powers," probably the law of Delaware. Then it is proposed that it should borrow money at 1% on a 40-year term from the Reconstruction Finance Corporation, and further: "It is proposed that the government make loans to individuals where they do not have sufficient capital to purchase stock in the local county associations."

The educational program contemplates trade and schools and then:

"In order to bring about a better understanding of the purposes, objectives and operations of cooperatives and in order to acquaint the people with the fundamental philosophy back of the cooperative movement, it is recommended that a course of study be initiated in the public schools system which will give basic training in all phases of cooperative economy. This course should supplement other courses now being taught in the public schools."

And lastly:

"Since there will be a large number of active cooperatives and since there will be a large number of people belonging and participating in these associations, it is recommended that a National Cooperative Service Bureau be set up in Washington for the purpose of aiding in devising laws,

technical assistance, research work, administration and operation of cooperative associations in the United States."

Representative Bradley, of Michigan, recently placed in the *Congressional Record* a petition from fifty merchants and farmers of Cheboygan, Michigan, asking Congress to investigate cooperatives as a privileged group. They cited the case of a local mill which, they said, could get wheat regularly from the Commodity Credit Corporation when a privately owned milling company couldn't, and then went on to say:

"The local cooperative was set up and organized by two men who are on the government pay roll, namely, the AAA county chairman and the FSA county supervisor. These men spent considerable amount of time on the proposition the year previous to their commencing business and are also spending a good share of their time at the local co-op plant since opening last September. Also, while organizing, they sent their literature out to the farmers in franked envelopes which, we understand, are to be used for government business only; and are operating on money loaned from the government which is, after all, the taxpayers' money. Frankly, we believe this type of organizing should be investigated."

"Further, the federal tax exemptions enjoyed by these associations, particularly now when the tax burden is greatest on private business, adds tremendous advantage. Undoubtedly the nation cannot exist without a strong and dependable tax structure, but the load must be borne in proportion by all."

"The argument advanced by the Cooperatives that they have no taxable profits is weak when it is realized that whether it be a profit to some

or a saving to others, the dollar is still there and somebody is not paying their proper share of tax. It would, therefore, appear that private enterprise is being made to pay the cost of subsidization of these associations."

In reply to what it calls an "unprovoked attack on the cooperative movement" by Fulton Lewis, Jr., radio commentator, the Cooperative League of the United States of America says:

"Lewis accused cooperative leaders of using unlimited expense accounts, he contended that the co-ops are evading payment of taxes, declared that the cooperatives are subsidized by the government through low cost of credit and that the cooperatives have become the kind of big business the Anti-trust Division of the Department of Justice is trying to destroy. All these charges are untrue."

"Lewis charges that the consumer cooperatives are exempt from taxes. Consumer cooperatives pay the same income taxes, property, and license taxes as ordinary business, they also pay corporation taxes, sales taxes, and excise taxes. The savings which cooperatives return to their members or which the members democratically vote to invest in capital is not income and therefore not subject to income taxes. This is the same right which is available to other business which may return overcharges to their customers if they wish."

Representative Jerry Voorhis of California, rising in the House to defend the cooperative movement, said:

"Such tax exemption as has been granted to farm cooperatives by action of Congress has been given them specifically because it was recognized by Congress that agriculture as a whole has

throughout the years received very substantially less than its fair share of our national income. The advantage accruing to farm cooperatives from this tax exemption is a very slight one indeed if we are talking about those portions of their receipts which really are income within the meaning of the Sixteenth Amendment to the Constitution."

"But what the enemies of cooperatives are really after is to secure the passage of a confiscatory tax on the savings which cooperatives make for their members and which are refunded to those members at the end of each year on the basis of their patronage. Such savings never are part of the income of cooperatives, nor would they be a part of such income even though the tax-exemption provisions now accorded farm cooperatives by Congress should be repealed. For cooperatives only act as servants of their members in purchasing supplies for them."

But he says nothing of what the Department of Labor describes as the spectacular expansion of cooperatives into the field of production.

It is evident that the cooperative movement is on its way to a region of new controversy. Hitherto it could be said that the advantages and privileges possessed by cooperatives under the law were offset by the superior efficiency of the individual trader. But with the enormous increase of the tax burden upon private enterprise the situation is much altered; and there seems no escape from the conclusions set forth by the Associated Industries of Oklahoma, that as the tax-exempt business of the cooperatives expands the levy on taxable business will tend to rise.

The Fourth Power of Government

ON THE day the second session of the 78th Congress was reconvened the Senate received the first report that has ever been made on the subject of government corporations. This was a subject that had been explored collaterally by Senator Byrd's Committee on Reduction of Nonessential Federal Expenditures—and it turned out to be an enormous job. Mr. Byrd made a brief statement in explanation of the report, as follows:

"The committee states that there are 44 government-owned corporations with liabilities of \$16,500,000,000, covered by assets the value of which will not be known for years to come. These corporations possess borrowing power of \$33,000,000,000, plus outstanding loans of \$6,500,000,000. They are operating at a current loss of nearly \$103,000,000. The corporations employ 70,000 officials and employees, who are scattered all over the world. All figures are as of the fiscal year ended June 30, 1943."

"So intensive was the investigation with respect to government-owned corporations that the information gathered was too voluminous to

include in the 52-page report. The committee held numerous hearings in order to determine what programs were being carried out by the government in utilizing the corporate form, and it also sought the opinions of experts in the field of corporations."

"Some of these corporations, notably the Reconstruction Finance Corporation and those functioning under the Coordinator of Inter-American Affairs, are world-wide in scope, and for the most part are handling billions of dollars without current control by Congress, Treasury, Bureau of the Budget, or General Accounting Office."

"Government corporations seem to have been created with little thought as to their advantages or disadvantages; some have been set up without capital stock, and others have been established with the idea or even the expressed intention to use up all capital in carrying out their purpose. The net proprietary interest of the government in all its corporations expanded from two billions seven hundred millions in 1933 to fourteen billions eight hundred millions in 1943. Most of these corporations are perpetual, to be wound up only when dissolved."

"Government corporations to a great degree

do business in competition with private enterprise. They encroach upon and compete with business—with business under serious disadvantage. They have practically unlimited government credit at low rates of interest; freedom in some instances from federal, state, and local taxation on property and securities, except taxes on real estate; they also enjoy the privilege of penalty mail and other concessions similar to those enjoyed by regular federal agencies. Add to these the prestige of a government agency and business meets an invincible competitor."

"There is no effective over-all control. Alone or in certain groups these corporations are autonomous. There has been a growing independence on the part of the corporations to resist attempts of the General Accounting Office to audit their accounts, and, on the other hand, this office has failed to press its rights in this matter under Executive Order 6549."

The summary occupied fifteen pages of the *Congressional Record*, with tables. The following paragraphs are from the body of the report:

"The government corporation represents an attempt, when extended to commercial enter-

prise, to apply a type of organization common to large-scale private commercial management. The purpose seems to be to avoid the ordinary restraints placed upon regular government establishments and to create a reservoir of capital.

"The magnitude of government corporations, particularly of Reconstruction Finance Corporation and Commodity Credit Corporation, is now so great as to rival government proper. In many cases, they exercise power and influence even greater than do departments and establishments.

"Why a government organization should be chartered under state laws is hard to understand. The first and most important objection, although without practical significance, is that the Federal Government subordinates itself to a state. An organization establishing itself under a state law assumes all the obligations as well as enjoying all the privileges conferred by a state certificate of incorporation. It acknowledges its liability for corporation taxes and similar levies. It is under obligation to domesticate in other states in which it does business. The government corporation also may expose itself to assessment for taxes, despite federal exemptions. Frequently, powers granted under a state charter may exceed the powers intended by Congress to be enjoyed by a corporation so chartered.

"Congress should have cognizance of corporations and this may be accomplished by submitting a work program of the ensuing year, with estimates of the year in progress, and of the completed fiscal year, all in the form of a business budget.

"There has been a growing independence on the part of corporations to resist attempts of the General Accounting Office to audit their accounts; on the other hand, this office has neglected to press its rights in this matter.

"But something should be done without delay. No major owner of corporate stock would be satisfied to permit his corporation to be run in the manner now nearly common to government corporations. While on this subject, it may be remarked that many corporations engage outside public accountants to audit their accounts. The government, with an accounting setup that should be the equal of any accounting firm in the country, should be free of this necessity.

"The corporate form is used to establish a revolving fund and maintain a constant source of cash and credit from capital invested and borrowing power."

Section II of the report is devoted to the history and growth of government corporations:

"In the early history of the Federal Government the corporate form of government agency was simple and rarely employed. First came the Bank of North America (1781) and the First and Second Banks of the United States. The Panama Railroad Company was chartered privately under the laws of New York in 1849 and acquired by the Federal Government in 1902. The Federal Reserve System was established under the act of 1913, privately owned by member banks and publicly controlled. Federal land banks were authorized by the Farm Loan Act of 1916.

"World War No. 1 brought on a marked development in this respect. The wartime govern-

ment corporations were: United States Grain Corporation (1917), United States Emergency Fleet Corporation (1917), United States Housing Corporation (1918), United States Spruce Production Corporation (1918), United States Sugar Equalization Board (1918), War Finance Corporation (1918), and War Trade Board of the United States Russian Bureau, Inc. (1918). Of this number, United States Spruce Production is just about to be dissolved and United States Housing is in liquidation; all others have been dissolved.

"Except for the federal intermediate credit banks in 1923 and the Inland Waterways Corporation in 1924, no recourse was had to the corporate device until the depression came in 1930. In 1932, by act of Congress, the Reconstruction Finance Corporation, federal home loan banks and regional agricultural credit corporations were established. In 1929, a specific type of public corporation was developed—the stabilization corporation, promoted, financed, and managed by the Federal Farm Board—these were the Cotton Stabilization Corporation and the Grain Stabilization Corporation both dissolved, in 1934 and 1935, respectively. These corporations were supplemented by privately owned corporations, the Farmers National Grain Corporation, American Cotton Cooperative Association, National Live Stock Association and others, all under the supervision of the Federal Farm Board for agricultural marketing and financed by the agricultural marketing revolving fund. These organizations were replaced by the Farm Credit Administration and the banks for cooperatives and production credit corporations in 1933.

"By that time the philosophy of American Government in the economic field had undergone, and was undergoing, a marked change. The "general welfare" had acquired a new meaning and possibly was overemphasized. The number increased from 10 corporations in 1931 to 27 in 1939, and there are now 44 corporations. Besides, there are 15 unincorporated agencies (sec. VIII of this report) operating loan activities and enterprises. Originally the corporate device was employed as a means of solving the complications of the federal system and, although this may be expeditious with respect to some activities which have been undertaken by the Federal Government, it appears now that every new business venture is thought of in terms of such avoidance. The inevitable result of this growth has been the impairment of control by Congress.

Cargoes, Inc., is in the Executive Office of the President, and has the following record:

"Creation: Incorporated privately, October 30, 1941, as Ships, Inc., under the laws of the State of New York. Acquired by Reconstruction Finance Corporation for Lend-Lease Administration, June 17, 1942, and name changed to Cargoes, Inc. The acquisition was made by Presidential directive under Reconstruction Finance Corporation authority to create corporations (15 U. S. C. 606b).

"Control: Board of directors, nine members, 1-year term, appointed by Lend-Lease Administrator. No current control by Congress, Treasury, Bureau of the Budget, or General Accounting Office; but arrangements are under way to submit accounts to the latter for audit.

"Borrowing power: Ordinary under charter. "Sources of funds: Capital by allocations to Reconstruction Finance Corporation out of lend-lease appropriations. Current needs from capital and further lend-lease allocations.

"Functions: Experimental design, engineering and construction in watercraft and aircraft for war and commerce.

"Expiration: When dissolved."

The committee's conclusions are these:

"1. A great diversity in creation and organization of government corporations is noted.

"2. The lack, generally, of over-all control, current control by Congress, the Budget, Treasury, and General Accounting Office should have immediate attention.

"3. To a large extent some corporations carry on extra corporate functions, such as payment of subsidies, price supports, buying and selling at a loss.

"4. Government corporations were principally created to meet a crisis or emergency.

"5. The corporate form has been too freely resorted to. Corporations were formed in many cases in which an ordinary agency would have sufficed.

"6. Using state charters to implement corporations is anomalous, and may be objectionable and dangerous.

"7. Government corporations have not been successful on a profit-and-loss basis, but such corporations are not usually established to make money. Panama Railroad Company (operating a monopoly in the Canal Zone) is an exception.

"8. Farm-credit institutions are to some extent overcapitalized, and a return to the Treasury should be considered.

"9. The number of corporations and their complicated interrelations defeat a clear understanding of the purposes and objectives of each.

And it makes the following recommendations:

"1. That over-all public control be established promptly with reference to current control by the Congress, the Budget, Treasury, and General Accounting Office:

"To take form of a business-type budget—a work program for the ensuing year, with comparisons for the year in progress, and for the last completed year—presented to the Bureau of the Budget;

"After review and modification to be included in the Budget for submission to Congress;

"To be acted upon by Congress in a similar manner as to appropriations;

"With provision for control accounts in the Treasury, and audit by the General Accounting Office.

"2. That the Comptroller General of the United States be made the auditor and comptroller, ex officio, of each and every government corporation.

"It would be necessary in carrying out this procedure to make provision for some discretion in executing the programs as authorized;

"And to arrange for the procedure as to audit and settlement by the General Accounting Office, and for the manner of Treasury control.

"(The Secretary of the Treasury and the Director of the Budget are not in complete agreement with recommendation No. 2 of the report.)"

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October, 1944

Cartel Idea in Oil

A Letter from J. Howard Pew, President of the Sun Oil Company

Dear Senator Connally:

I am writing to you, as Chairman of the Senate Foreign Relations Committee, because I am seriously disturbed over the possibility that the recently published Agreement on Petroleum between the United States and Great Britain may become the foundation stone for far-reaching and radical changes in the relationships of our government to the petroleum industry.

It is neither an easy nor a pleasant task to write this letter because what I have to say may be most unwelcome in certain quarters. But I feel compelled to do so in the interest of protecting the livelihood of the thousands of workers employed by my Company and those other hundreds of thousands of petroleum workers who have contributed so much to winning the war, and as a contribution to the public welfare.

My concern, in large part, grows out of the vagueness of the language of this Agreement which already seems to have lulled many into complacency regarding its possible implications. I am conscious of the fact that, as someone has said, "to be grandly vague is the shortest route to power; for a meaningless noise is that which divides us the least."

The language of this Agreement is as innocuous or as vicious as its administrators desire to make it. Virtually every paragraph in this Agreement contains a phrase which raises questions that to date remain unanswered.

What is the meaning of the phrase "fair prices"? What is meant by the use of the phrase in this Agreement, "production equitably distributed among the various producing countries"? Does it contemplate the shutting down of oil wells in this country by governmental edict in order that oil wells in some remote part of the world might continue to produce their "equitable" share of the oil needed to meet the estimated world demand? Is it contemplated that the exports in this country of finished petroleum products may be restricted in order that the "sound economic advancement" of some other country may be encouraged? Does the Agreement mean that at some future time the International Petroleum Commission may decide there is a surplus of oil in the world and that production in the United States should be restricted?

Only those who negotiated this Agreement know the answers to these questions. The remainder of us are completely in the dark. Yet under the vague language of this Agreement all these things are possible should we have a government of men so inclined. Or, the phrases upon which these questions are based may be meaningless.

I gather from the press today that you are inclined to take this latter view. But I am not yet ready to believe that this Agreement is "a meaningless noise." On the contrary I see in it the possibility of a first step in what might be a carefully laid plan for a superstate cartel covering the petroleum industry in all parts of the world for the postwar years.

I know I need not labor with you the evil nature of the cartel system. Originating in Europe as a device to assure the security and survival of decadent and inefficient industries and economies, the cartel system is the antithesis of our American competitive system. It is a primary reason for the backwardness of European industry compared with our own. This our people know, and for more than fifty years it has been American public policy to outlaw monopolies growing out of schemes for price-fixing and production control. Only during the brief life of the National Recovery Administration in the Thirties have we markedly departed from this policy.

Cartel arrangements, as has been demonstrated again and again, have as their purpose the stifling of competition. Their effect has been to destroy initiative; close the door of opportunity for new individual entrepreneurs and small business units; encourage inefficiency; raise prices and thus lower the standard of living. All these fruits of the cartel system result in the freezing of industrial progress to the detriment of workers, consumers and those with savings to invest. A cartel under the aegis of governments is no less reprehensible than a cartel entered into by individuals. Both are detrimental to the public welfare.

It is generally recognized that the American petroleum industry has supplied the No. 1 essential ingredients for United Nations victory in this war. Had this industry in the past been a part of a cartel system it never would have developed the facilities and organization to make possible its present tremendous output of war products. This is well illustrated by the fact that over 90% of all the oil resources in the world have been discovered and developed by Americans. Under a system which has given free rein to their initiative and resourcefulness, they have outstripped in the development of oil fields the nationals of countries where the cartel system appears to be in high favor.

The petroleum industry in this country depends for its existence on the initiative and ingenuity of its independent producers. The freedom of these men to venture their savings in an effort to discover and develop new reservoirs of oil with the hope of consequent reward is responsible for the tremendous oil resources which we now have available. Subject this industry to cartel controls and its forward march will be halted. I think it may fairly be added that oil is the lifeblood of all our economic life, in peace as well as in war, and any destructive regulation of the oil industry would have repercussions affecting every industry and everyone in this nation.

Consequently, I believe that any action of our government which may be open even to the suspicion of entangling any part of our American economy in the coils of this cartel system merits the most searching inquiry and the most careful scrutiny by the people's representatives in Congress. When such possible action is buttressed upon an international agreement, compact,

treaty, or call it what you desire, it seems to me that the United States Senate, and particularly its Committee on Foreign Affairs, has a grave responsibility to assure that the country thoroughly understands the course upon which we are embarking. For as you know, treaties once ratified become the supreme law of the land and actions taken pursuant thereto could well supercede our federal anti-trust laws and state laws and policies.

So far as this Agreement goes toward eliminating national frictions through acceptance of the principles of the open door and equal opportunity in the acquisition of exploration and development rights in areas not now under concession and in giving assurances for mutual respect of all existing valid concession contracts and lawfully acquired rights, it is a step in the right direction. My misgivings do not grow out of those parts of the Agreement.

Articles III and IV raise questions which I think should merit the careful attention of your Committee and the Congress. Article III provides for the establishment of an International Petroleum Commission, upon which the two governments would have equal representation. The Commission is charged with the duty of preparing long-term estimates of world demand for petroleum products; of suggesting the manner in which, over the long term, this estimated demand may best be satisfied by "production equitably distributed among the various producing countries" in accordance with a vague criterion enumerated in the Introductory Article; of recommending to both governments "broad policies for adoption by operating companies with a view to effectuating programs" thus suggested; of making certain other analyses; and "to make, from time to time, such additional reports and recommendations to the two governments as may be appropriate to carry out the purposes of this Agreement."

Although three different provisions of this Agreement are made contingent upon this term: "the purposes of this Agreement," such purposes are in no place specifically declared, unless the five vague and innocuous paragraphs comprising the Introductory Article are to be taken as such a declaration of purpose.

If this latter conjecture be correct then there is little limitation upon matters concerning the petroleum industry with which this Commission is empowered to deal. The same logic applies in the absence of any specific declaration of purpose.

Passing now to Article IV, we find that the "two governments hereby grant reciprocal assurances . . . that upon approval of the recommendations of the Commission they will endeavor, in accordance with their respective constitutional procedures, to give effect to such approved recommendations."

All of this is against the background of a general declaration that the two governments will so direct their efforts with respect to petroleum resources that "adequate supplies of petroleum shall be available in international trade to the

nationals of all peaceable countries at fair prices and on a nondiscriminatory basis," and that "the development of petroleum resources and the benefits received therefrom by the producing countries shall be such as to encourage the sound economic advancement of those countries."

In other words, this Agreement lays down the groundwork for the regulation by the British and American governments of the production, refining and distribution of petroleum and petroleum products. Obviously some form of price fixing and production allocation is contemplated.

The public has not yet been informed of the nature of the discussions which resulted in the formulation of this Agreement. Nor do we know the intentions of the negotiators. But it is reasonable to assume that these negotiators, when they proposed the establishment of an International Petroleum Commission with the function of preparing long-term estimates of world demand for petroleum and suggesting the manner in which "this estimated demand may best be satisfied by production equitably distributed among the various producing countries," were not engaged in the writing of meaningless phrases.

They must have had in mind the thought that such estimates and suggestions would result in recommendations to the respective governments which called for action; that such action would place certain restraints or obligations upon operating companies which they, in the natural course of their operations, would not otherwise fulfil (otherwise there would be no need for governmental action); and each government gives reciprocal assurances it will act, that is enact legislation, to give effect to such recommendations when approved.

Such recommendations would deal with the question of "fair prices." What is a "fair price" for petroleum products at any given time? If it is to be controlled by the age-old laws of supply and demand, there is no need for governmental action. Or is supply, which is to say production, to be allocated in order to maintain some "fair price" determined by a group of government officials? Will the basis for a "fair price" be the operations of high-cost producers and refiners who have failed to keep abreast of technological developments and increased efficiency? Does this declaration for a "fair price" contemplate the governmental imposition of both ceilings over and floors under petroleum prices?

At the outset of this letter I recited several questions which occur from the reading of such phrases as the satisfaction of estimated demand "by production equitably distributed among the various producing countries" and that "the development of petroleum resources and the benefits received therefrom by the producing countries shall be such as to encourage the sound economic advancement of those countries."

The Agreement in Article III makes the declaration that there are "numerous problems of joint immediate interest to the two governments . . . which must be discussed and resolved on a cooperative interim basis if the general petroleum supply situation is not to deteriorate." Aside from controversies which may arise over concessions in foreign lands, what are these problems? What is this threatened deterioration of the general petroleum supply situation? It cannot grow out of insufficient supplies, once the war

ends. Does it have to do with the possibility of postwar surpluses and a procedure for undertaking to handle them?

The *New York Times*, in a recent editorial commenting upon the proposed International Petroleum Commission and its function of estimating long-term world demand, went to the heart of this matter when it said:

"Producers themselves have a vital interest in determining such facts, and among them are likely to make as good an estimate as any inter-governmental commission. A free world market, with free prices, moreover, will tell more about the real situation than any estimate, official or unofficial. What causes some misgiving about this aspect of the oil agreement is that oil is only one of a score of important international commodities. The prospect of each of these being controlled by a 'permanent' international commission would not be reassuring. True international cooperation consists not primarily in bureaucratic controls, with every question thrown into discussion by representatives of Governments; it consists in maintaining that freedom of trade under which goods go to the points where they are in greatest demand from the points where they can be most efficiently produced. This end should be subordinated only to military necessity."

Final acceptance of this Agreement by the United States undoubtedly would mean the establishment of a postwar federal regulatory agency for the petroleum industry in this country. The extent of the powers of such an agency would depend upon the force which our government would give to this Agreement. Such powers might be so wide as to supersede in virtually all respects the current petroleum policies of the several states. This in effect would mean the wrecking of our present Interstate Oil Compact, which has worked quite well.

It has been suggested that this Agreement on Petroleum is nothing more than an international application of our Interstate Oil Compact. That is simply not so. In at least two particulars this Agreement is the very antithesis of the Interstate Oil Compact.

In the first place, our Interstate Oil Compact has as its specifically declared purpose the conservation of oil or gas by the prevention of physical waste thereof from any cause. And the Interstate Oil Compact contains the following very specific and definite declaration:

"It is not the purpose of this compact to authorize the States joining herein to limit the production of oil or gas for the purpose of stabilizing or fixing the price thereof, or create or perpetuate monopoly, or to promote regimentation, but is limited to the purpose of conserving oil and gas and preventing the avoidable waste thereof within reasonable limitations."

No such specific declaration appears in this Agreement on Petroleum. Instead, such vague phrases appear as that action should be taken "with a view to the full satisfaction of existing demand," and that "the exploration for and development of petroleum resources, the construction and operation of refineries and other facilities in the distribution of petroleum shall not be hampered by restriction imposed by either government or its nationals, inconsistent with the purposes of this Agreement." There again we

have that mysterious phrase: "purposes of this Agreement," which seemingly is related to nothing that goes before or after.

There is, moreover, a vast difference between our Interstate Oil Compact and this proposed international oil compact. Under the former, the power of regulating production and other functions of the petroleum industry is lodged within the state governments, where it should be, if such a function is to be exercised at all. But under this international compact the power of regulating production, as far as the United States is concerned, would, of necessity, be centralized in the Federal Government, where under our Constitution and the American way it has no right to be, under any circumstances.

Thus the entire system of state laws relating to oil production, refining and distribution, built up over the years, and the Interstate Oil Compact would be destroyed. The Federal Government would have an absolute power to apportion, ration or restrict production and use of petroleum products within the scope of the international allocation scheme. Such action would require freezing the position of all existing units of the industry, shutting the door against newcomers and creating a government-sponsored monopoly. It would not be long under such a monopoly before the American petroleum industry would lose all initiative and commence to disintegrate. The American consumer would be the loser under such an arrangement.

But, it may be suggested, the negotiators of this Agreement had no such intentions in mind. It is possible they contemplated limiting whatever controls are necessary to effectuate the agreement to petroleum products moving in foreign trade, thus leaving the American industry free in so far as its domestic business is concerned. But there is not one specific provision in this Agreement to indicate that such is the intended course of action. If that is the plan, then it certainly should be specifically written into the Agreement.

Of course it may be said that the effectuation of such possibilities as I have mentioned above would require subsequent legislation and appropriations by the Congress and that when such proposals are made it will be time enough to consider these broad questions. The point is not well taken. For to make agreements with other nations which we do not propose to live up to would bring upon our country the just charge of national perfidy. Such a course of action, obviously, would greatly contribute in the postwar years to international frictions and misunderstandings rather than allay them. The time to deal with these matters is when they are first brought up.

For these reasons, as one who has devoted his life to the petroleum industry and has a deep interest in keeping it upon a competitive basis, I fervently hope that your Committee will insist that all pertinent and material facts relating to the negotiation of this Agreement on Petroleum be made public and the necessary steps will be taken to reject any effort to cartelize the American petroleum industry or to subject it to the possibility of price fixing and production controls.

Sincerely yours,
(signed) J. HOWARD PEW

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The Story of Free Oil

By John A. Brown, late President of the
Socony-Vacuum Oil Company

Recently, you may have heard much about the need for a drastic change in oil policy, which would increase government control to an extraordinary degree. We hear that our oil reserves are dwindling at an alarming rate; that we must look to other countries for sufficient oil for peacetime economy and for national defense; that this means the Federal Government must own and operate a corporation, engaged abroad in all forms of oil activity—production, transportation, refining and marketing.

At home, we have heard intimations that government should suppress the production rate of our oil fields to make room for large imports, so that this suppressed production will be there for emergency use—that proven developed oil fields might be condemned and locked up in government ownership reserve as a national defense measure—that the government and not private industry should try to develop oil on the public lands—that billions of barrels of crude oil should be stored by government above or below ground, or that there should be equally costly storage of a huge volume of products . . .

The results of all this well-meant planning at home and abroad would bring the very disaster that the planners seek to avoid. Both the planning and the fear of oil shortage which prompt it have a familiar ring to the older men of the industry, like some discredited legend from the past. As far back as 1908, the Chief of the United States Geological Survey expressed great concern over the coming oil shortage, saying that practically all good geological prospects had been tested. Predictions of oil shortage made headlines after the last World War, and the proposals that seem to be going the rounds today are, unfortunately, similar to those made then.

In 1920 a bill was introduced into the Senate to form a United States Oil Corporation to operate in all foreign countries with capital supplied by the oil industry and a Directorate of nine appointed by the President of the United States. Dollar gasoline was predicted as an immediate calamity. The then Secretary of the Navy wanted to nationalize the oil industry. With the benefit of hindsight, we see clearly how fortunate we were to avoid the dreadful mistake of adopting these plans, which would have stopped the industry's progress, and might easily have reduced greatly our chances of winning the present war.

Letters

History Forgotten

To the Editor:

Apropos of your symposium in *The Economic Record* on the subject, "Does American Business Want Free Enterprise," I am neither disappointed nor surprised at the responses to your inquiry. It seems to me to be a perfectly natural reaction in view of the confusion that has prevailed over the last decade, the propaganda so widely disseminated about our "mature economy," and the disposition on the part of many of our businessmen who have been led to the

conclusion that the tendency toward centralized government power is a progressive and remedial movement.

This attitude of our business leaders may be regarded as a perfectly justifiable delusion, and the explanation for the confusion may be put down to illiteracy in respect to historical phenomena and the science of government. This attitude is the perfectly natural and inevitable outcome of the environment surrounding our business setup.

As a matter of fact, won't we find that the attention of our industrial leaders, many of them members of the National Industrial Conference Board, has been so deeply concentrated on individual problems of individual management, including production, distribution and even research, that there has been a tendency to neglect the study of these deeper fundamentals?

Look at the roster of our leaders of enterprise. We have gloried in the fact that most of them "came from the bottom"—section hands becoming railroad presidents, steel executives who rose from the lowest ranks, this record expanding throughout all our national activities. These men are exemplars of our vaunted freedom of opportunity. Their success has been due to industry, thrift and the application of those qualities that make for practical efficiency.

They were so absorbed in their own problems that they devoted practically no time to the study of history and the science of government, and quite naturally they have little or no conception of the meaning of the devices, including "new instruments of power," by which free enterprise and the American way of life were being so insidiously and destructively altered.

Moreover, our citizens have been in the habit of trusting their government, and although the ideological fantasies that seeped out of Washington were disturbing, they were put down as the work of irresponsible crackpots who had no real voice in policy making. The optimism of business was expressed by that credulous "It can't happen here," although the threads of the pattern were still visible in the texture woven by Diocletian and worn through later centuries in Byzantium and by Colbert, and finally donned by the Nazis. Time and again I have heard some of our affluent industrialists turning in boredom from the warnings of our own Dr. Jordan and saying, "Oh, he's too reactionary." As if "reactionary" were the word. The trouble was that these industrial leaders knew little of what forces lay beneath the current goings on, although there were some things they didn't quite like.

Another trouble was that they not only did not know what was beneath the current goings on, but they knew nothing of the historical basis for American economic preeminence.

Now let us look back a little, say a century and a half. Our Constitutional Fathers were not "business men." They had devoted much of their time and efforts to the study of government. They were familiar with the great philosophers of antiquity, including Aristotle, Cicero, Polybius and Plato, although some of them had their fingers crossed on Platonic Utopia. Look through "The Federalist," and you will see quotations from the authors above named, including extracts from Montesquieu and his "L'Esprit des Lois." As a matter of fact, some European observers have pronounced them among the most

cultured men of their time in the knowledge of government.

Also, our business leaders might have taken a little time off and read John Stuart Mill's "Essay on Representative Government," particularly this paragraph:

"A people may prefer a free government but if, from indolence, or carelessness, or cowardice, or want of public spirit, they are unequal to the exertions necessary for preserving it; if they will not fight for it when directly attacked; if they can be deluded by the artifices used to cheat them out of it; if, by monetary discouragement, or temporary panic, or a fit of enthusiasm for an individual, they can be induced to lay their liberties at the feet of even a great man, or trust him with powers which enable him to subvert their institutions . . . in all these cases they are more or less unfit for liberty; and though it may be for their good to have had it even for a short time, they are unlikely long to enjoy it."

Tell me, if you please, how many of our business leaders have familiarized themselves with the philosophy of history and the science of government expounded by the great thinkers of the past.

C. T. R.

Political Momentum

The practical politician . . . never asks whether the political momentum set up by his measure, in some cases decreasing but in other cases greatly increasing, will or will not have the same general direction with other like momenta; and whether it may not join them in presently producing an aggregate energy working changes never thought of. Dwelling only on the effects of his particular stream of legislation, and not observing how such other streams already existing, and still other streams which will follow his initiative, pursue the same average course, it never occurs to him that they may presently unite into a voluminous flood utterly changing the face of things. Or to leave figures for a more literal statement, he is unconscious of the truth that he is helping to form a certain type of social organization, and that kindred measures, effecting kindred changes of organization, tend with ever-increasing force to make that type general; until, passing a certain point, the proclivity towards it becomes irresistible. Just as each society aims when possible to produce in other societies a structure akin to its own—just as among the Greeks, the Spartans and the Athenians struggled to spread their respective political institutions, or as, at the time of the French Revolution, the European absolute monarchies aimed to reestablish absolute monarchy in France while the Republic encouraged the formation of other republics; so within every society, each species of structure tends to propagate itself. Just as the system of voluntary cooperation by companies, associations, unions, to achieve business ends and other ends, spreads throughout a community; so does the antagonistic system of compulsory cooperation under State-agencies spread; and the larger becomes its extension the more power of spreading it gets. The question of questions for the politician should ever be—"What type of social structure am I tending to produce?" But this is a question he never entertains.—"Man versus the State," *Herbert Spencer*.

Publications of the National Industrial Conference Board

The Economic Almanac (published annually)

The Management Almanac (published annually)

The Economic Record (quarterly)

The Conference Board Business Record (monthly)

The Conference Board Management Record (monthly)

The Conference Board Industry Record (four a month)

Conference Board Reports

Studies in Business Policy

Studies in Personnel Policy

Weekly Desk Sheet of Current Business Indications

Conference Board Previews: Weekly Summary and Announcements of Conference Board Studies and Discussions

Road Maps of Industry: Weekly Chart Service